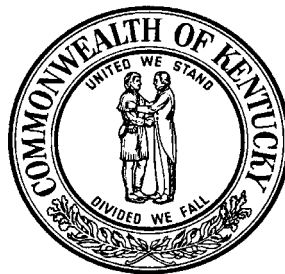


**LETTER FROM THE AUDITOR OF PUBLIC ACCOUNTS
CABINET FOR HEALTH AND FAMILY SERVICES**

**In Reference to the Statewide Single Audit
of the Commonwealth of Kentucky**

**For the Year Ended
June 30, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Mark Birdwhistell, Secretary
Cabinet for Health and Family Services

MANAGEMENT LETTER

KRS 43.090 (1) requires the Auditor of Public Accounts, upon completion of each audit and investigation, to prepare a report of all findings and recommendations, and to furnish copies of the report to the head of the agency to which the report pertains, and to the Governor, among others. This KRS also requires the Cabinet for Health and Family Services (CHFS) to, within 60 days of the completion of the final audit, notify the Legislative Research Commission and the Auditor of Public Accounts of the audit recommendations it has implemented and those it has not implemented and any reasons therefore. We are providing this letter to CHFS in compliance with KRS 43.090.

The work completed on CHFS is part of the overall opinions included in the audit of the Commonwealth of Kentucky's Comprehensive Annual Financial Report (CAFR) and Statewide Single Audit of Kentucky (SSWAK). Findings and recommendations for agencies, audited as part of the CAFR and SSWAK, if applicable, can be found in the Statewide Single Audit Report. This report can be obtained on our website at www.auditor.ky.gov.

In planning and performing our audits of the Commonwealth for the year ended June 30, 2005, we considered CHFS' internal control over financial reporting and compliance with laws, regulations, contracts and grant agreements in order to determine our auditing procedures for the purpose of expressing opinions included in the audit of the CAFR and SSWAK and not to provide an opinion on internal control or on compliance.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The SSWAK is a separate report dated March 9, 2006 and contains all reportable conditions and material weaknesses in the Commonwealth's internal control structure and also contains all reportable instances of noncompliance. This letter does contain CHFS' findings and our recommendations that have been extracted from the SSWAK report along with other matters that have been identified.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Mark Birdwhistell, Secretary
Cabinet for Health and Family Services

We will review the status of these comments during our next audit. We have already discussed many of these comments and suggestions with various CHFS personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Included in this letter are the following:

- ◆ Acronym List
- ◆ Schedule of Expenditures of Federal Awards
- ◆ Notes to the Schedule of Expenditures of Federal Awards
- ◆ Findings and Recommendations
- ◆ Summary Schedule of Prior Year Audit Findings

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -

March 9, 2006

LIST OF ABBREVIATIONS/ACRONYMS

AD	Active Directory
AFR	Annual Financial Report
AMS	Area Message System
APA	Auditor of Public Accounts
ASF	Advanced Streaming Format
Cabinet	Current CHFS Cabinet and Former CFC and CHS Cabinets
CAFR	Comprehensive Annual Financial Report
CCM	CCM Communications
CFC	Cabinet for Families and Children
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CGMS	Copy Generation Management System
CHFS	Cabinet for Health and Family Services
CHS	Cabinet for Health Services
CICS	Customer Information Control System
CIM	Compaq Information Manager
CMHC	Community Mental Health Center
Commonwealth	Commonwealth of Kentucky
COT	Commonwealth Office for Technology
CPA	Certified Public Accountant
DCBS	Department for Community Based Services
DCR	Design Change Request
DDM	Distributed Data Management
DDS	Department for Disability Determination Services
DFM	Distributed File Management
DFS	Division of Fiscal Services
DHCP	Dynamic Host Configuration Protocol
DHHS	United States Department of Health and Human Services
DMH-MRS	Department for Mental Health and Mental Retardation Services
DMS	Department for Medicaid Services
DPH	Department of Public Health
DoS	Denial of Service
DRF	Discrepancy Reconciliation Request form
DRP	Disaster Recovery Plan
EDS	Electronic Data Systems Corporation
FAD	Family Alternative Diversion
FSM	Family Support Memorandum
FTP	File Transfer Protocol
FY	Fiscal Year
GPS	Global Positioning Systems
HTTP	Hypertext Transfer Protocol
HTTPS	Hypertext Transfer Protocol Secure
IBM	International Business Machine
IIS	Internet Information Server
IN	State of Indiana
IP	Internet Protocol

LIST OF ABBREVIATIONS/ACRONYMNS**(Continued)**

IPP	Internet Printing Protocol
KAAAP	Kentucky Access, Accuracy, and Accountability Project
KAMES	Kentucky Automated Management and Eligibility System
KASES	Kentucky Automated Support Enforcement System
KCHIP	Kentucky Children's Insurance Program
KIH	Kentucky Information Highway
KMMIS	Kentucky Medicaid Management Information System
KRS	Kentucky Revised Statutes
KTAP	Kentucky Transitional Assistance Program
KWP	Kentucky Works Program
LAN	Local Area Network
LHD	Local Health Departments
LSA	Local Security Authority
MARS	Management Administrative Reporting System
MMIS	Medicaid Management Information System
MS	Microsoft
MS	State of Mississippi
NA	Not Applicable
NetBIOS	Network Basic Input/Output System
NT	New Technology
OCO	Office of Contract Oversight
OH	State of Ohio
OIG	Office of Inspector General
OIT	Office of Information Technology
OMB	Office of Management and Budget
OMTL	Operations Manual Transmittal Letters
OMU	Operations Manual Updates
OS	Operating System
PAS	Public Assistance System
PCG	Public Consulting Group
PDL	Page Description Language
PX	Project Change in MARS
PWB	Project Workbook
RACF	Resource Access Control Facility
RDS	Report Management Distribution System (Mobious Mgmt System)
RMCP	Remote Management and Control Protocol
RTMC-SC104	Radio Technical Commission for Maritime Services Special Committee No. 104
RTMP	Real Time Management Protocol
SAS	Statement on Auditing Standards
SDLC	System Development Life Cycle
SDX	State Data Exchange
SMB	Server Message Block Protocol
SRAA	Service Region Administrator Associate
SSN	Social Security Numbers
SSL	Remote Database Access Using Secure Socket Layers

LIST OF ABBREVIATIONS/ACRONYMNS**(Continued)**

SMTP	Simple Mail Transfer Protocol
SMUX	SNMP Unix Multiplexer
SNMP	Simple Network Management Protocol
SSWAK	Statewide Single Audit of Kentucky
STEP	System Tracking Employability Program
TANF	Temporary Assistance for Needy Families
TCP	Transmission Control Protocol
Tier	Tier Technologies
TLS	Transport Layer Security
TN	State of Tennessee
WANG	Wang Laboratory, Inc
WIN	Work Incentive
WV	State of West Virginia
U.S.	United States
VNC	Virtual Network Computer
VoIP	Voice Over Internet Protocol

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

CFDA #	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
<u>U.S. Department of Agriculture</u>				
Direct Programs:				
Food Stamp Cluster:				
10.551	Food Stamps (Note 2) (Note 3)		\$ 597,365,451	
10.561	State Administrative Matching Grants for Food Stamp Program (Note 2)	\$ 28,653,559		\$ 681,940
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (Note 2)	96,514,894		16,335,516
<u>U.S. Department of Justice</u>				
Passed Through From Justice Cabinet:				
16.588	Violence Against Women Formula Grants	11,158		
<u>U.S. Department of Labor</u>				
Direct Programs:				
17.235	Senior Community Service Employment Program	1,590,578		1,547,754
17.253	Welfare-to-Work Grants to States and Localities (Note 4)			
<u>U.S. Environmental Protection Agency</u>				
Direct Programs:				
66.032	State Indoor Radon Grants	610,472		316,939
66.707	TSCA Title IV State Lead Grants-Certification of Lead-Based Paint Professionals	38,098		
<u>U.S. Department of Energy</u>				
Direct Programs:				
81.042	Weatherization Assistance for Low-Income Persons	4,588,542		4,251,213
Passed Through From Environmental and Public Protection Cabinet				
81.502	Paducah Gaseous Diffusion Plant Environmental Monitoring and Oversight	347,470		73,561
<u>U.S. Department of Education</u>				
Direct Programs:				
84.181	Special Education-Grants for Infants and Families with Disabilities	4,609,657		
84.186	Safe and Drug-Free Schools and Communities - State Grants	1,516,879		1,516,877
<u>U.S. Department of Health and Human Services</u>				
Direct Programs:				
93.003	Public Health and Social Services Emergency Fund	7,481,827		7,321,490

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

CFDA #	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
U.S. Department of Health and Human Services				
Direct Programs (Continued):				
93.041	Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	74,596		74,596
93.042	Special Programs for the Aging - Title VII, Chapter 2 - Long-Term Care Ombudsman Services for Older Individuals	228,169		118,224
93.043	Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	351,498		349,673
Aging Cluster:				
93.044	Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	5,510,447		5,170,124
93.045	Special Programs for the Aging - Title III, Part C - Nutrition Services	7,683,269		7,324,213
93.053	Nutrition Services Incentive Program	1,965,969		1,965,969
93.046	Special Programs for the Aging - Title III, Part D - In-Home Services for Frail Older Individuals (Note 4)			
93.051	Alzheimer's Disease Demonstration Grants to States	219,367		207,600
93.052	National Family Caregiver Support	2,199,816		2,170,616
93.103	Food and Drug Administration Research	5,000		
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	510,063		492,962
93.110	Maternal and Child Health Federal Consolidated Programs	195,168		116,208
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs (Note 3)	995,264	35,778	820,675
93.130	Primary Care Services - Resource Coordination and Development	91,954		22,000
93.136	Injury Prevention and Control Research and State and Community Based Programs	1,008,120		1,006,570
93.150	Projects for Assistance In Transition from Homelessness (PATH)	352,000		352,000
93.197	Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	823,556		726,027
93.217	Family Planning - Services	5,960,267		5,447,867
93.230	Consolidated Knowledge Development and Application (KD&A) Program	49,927		49,927
93.234	Traumatic Brain Injury - State Demonstration Grant Program	163,327		160,671
93.235	Abstinence Education Program	1,120,694		1,062,392
93.238	Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	234,315		189,237

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

CFDA #	Program Title	Expenditures		Provided to
		Cash	Noncash	Subrecipient
U.S. Department of Health and Human Services				
Direct Programs (Continued):				
93.243	Substance Abuse and Mental Health Services - Projects of Regional and National Significance	753,118		508,791
93.251	Universal Newborn Hearing Screening	139,529		
93.268	Immunization Grants (Note 3)	3,107,215	13,194,857	1,364,227
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance (Note 2) (Note 3)	21,536,548	968,892	14,174,806
93.556	Promoting Safe and Stable Families	8,409,146		3,280,171
93.558	Temporary Assistance for Needy Families (Note 2)	131,409,862		12,598,319
93.563	Child Support Enforcement (Note 2)	38,403,099		23,752,364
93.568	Low-Income Home Energy Assistance (Note 2)	30,096,025		29,514,038
93.569	Community Services Block Grant	11,131,977		9,398,833
93.571	Community Services Block Grant Formula and Discretionary Awards Community Food and Nutrition Programs	64,338		64,338
Child Care Cluster:				
93.575	Child Care and Development Block Grant (Note 2)	69,155,935		3,997,654
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund (Note 2)	46,692,201		7,945,322
93.590	Community-Based Child Abuse Prevention Grants	1,078,164		287,263
93.597	Grants to States for Access and Visitation Programs	99,282		98,918
93.599	Chafee Education and Training Vouchers Program (ETV)	340,452		
93.603	Adoption Incentive Payments	452,000		
93.630	Developmental Disabilities Basic Support and Advocacy Grants	1,109,102		655,970
93.631	Developmental Disabilities Projects of National Significance	20,313		
93.643	Children's Justice Grants to States	59,851		
93.645	Child Welfare Services - State Grants	4,525,935		
93.658	Foster Care-Title IV-E (Note 2)	51,941,249		
93.659	Adoption Assistance (Note 2)	23,629,723		
93.667	Social Services Block Grant	15,919,934		754,463
93.669	Child Abuse and Neglect State Grants	443,817		77,038
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters-Grants to States and Indian Tribes	1,693,093		1,674,479
93.674	Chafee Foster Care Independence Program	1,593,090		907,053
93.767	State Children's Insurance Program (Note 2)	70,319,732		99,800

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

CFDA #	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
<u>U.S. Department of Health and Human Services</u>				
Direct Programs (Continued):				
Medicaid Cluster:				
93.777	State Survey and Certification of Health Care Providers and Suppliers (Note 2)	6,092,161		
93.778	Medical Assistance Program (Note 2)	3,037,272,436		
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations, and Evaluations	1,149,339		1,037,808
93.917	HIV Care Formula Grants	7,365,093		7,117,824
93.931	Demonstration Grants to States for Community Scholarships (Note 4)			
93.940	HIV Prevention Activities - Health Department Based (Note 3)	2,125,429	8,887	1,719,530
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	136,705		45,381
93.945	Assistance Programs for Chronic Disease Prevention and Control	343,181		202,051
93.958	Block Grants for Community Mental Health Services	5,477,512		5,463,517
93.959	Block Grants for Prevention and Treatment of Substance Abuse (Note 2)	20,794,641		20,793,174
93.977	Preventive Health Services - Sexually Transmitted Diseases Control Grants (Note 3)	1,268,480	297,856	294,604
93.988	Cooperative Agreements For State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	601,437		523,308
93.991	Preventive Health and Health Services Block Grant	1,687,778		1,645,108
93.994	Maternal and Child Health Services Block Grant to the States	12,094,861		7,365,273
Passed Through From Education Cabinet				
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	90,380		7,517
<u>U.S. Corporation for National and Community Service</u>				
Direct Programs:				
94.003	State Commissions	156,495		
94.004	Learn and Serve America-School and Community Based Programs (Note 4)			
94.006	AmeriCorps	1,916,763		1,796,060
94.007	Planning and Program Development Grants	39,402		33,786
94.009	Training and Technical Assistance	68,568		

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

CFDA #	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
<u>U.S. Corporation for National and Community Service</u>				
Direct Programs (Continued):				
Foster Grandparents/Senior Companion Cluster:				
94.011	Foster Grandparent Program	519,871		111,296
94.NA (1)	Clinical Laboratory Improvement Act	456,203		
<u>U.S. Social Security Administration</u>				
Direct Programs:				
Disability Insurance/SSI Cluster:				
96.001	Social Security-Disability Insurance (Note 2)	39,028,702		
<u>U.S. Department of Homeland Security</u>				
Passed Through From Department of Military Affairs				
97.040	Chemical Stockpile Emergency Preparedness Program	124,982		124,982
97.053	Citizen Corps	494		
Total Cabinet For Health and Family Services		\$3,848,641,563	\$611,871,721	\$219,307,907

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Basis of Presentation - OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the *Catalog of Federal Domestic Assistance*. The accompanying schedule includes all federal grant activity administered by the Cabinet for Health and Family Services (CHFS), except those programs administered by state universities, and is presented primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. The Commonwealth elected to exclude state universities from the statewide single audit, except as part of the audit of the basic financial statements.

KRS 45.229 provides that the Finance and Administration Cabinet may, “for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The basic financial statements of the Commonwealth are presented on the modified accrual basis of accounting for the governmental fund financial statements and the accrual basis of accounting for the government-wide, proprietary fund, and fiduciary fund financial statements. Therefore, the schedule may not be directly traceable to the basic financial statements in all cases.

Noncash assistance programs, where applicable, are not reported in the basic financial statements of the Commonwealth for FY 05. The noncash expenditures presented on this schedule represent the noncash assistance expended by CHFS using the method or basis or valuation described in Note 3.

Clusters of programs are indicated in the schedule by light gray shading. Programs that do not have CFDA numbers are identified using the two-digit federal identifier prefix, and the letters “NA” to denote that no specific number is applicable. Each program is numbered in parentheses, following the NA for each federal grantor.

The state agencies’ schedule is presented on the cash, modified cash, or accrual basis of accounting.

Inter-Agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one (1) state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the schedule:

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)

Inter-Agency Activity

- (a) Federal moneys may be received by one state agency and passed through to another state agency where the moneys are expended. Except for pass-throughs to state universities as discussed below, this inter-agency transfer activity is reported by the agency expending the moneys.

State agencies that pass federal funds to state universities report those amounts as expenditures.

- (b) Federal moneys received by a state agency and used to purchase goods or services from another state agency are reported in the schedule as an expenditure by the purchasing agency only.

Note 2 - Type A Programs

Type A programs for the Commonwealth mean any program for which total expenditures of federal awards exceeded \$20 million for FY 05. CHFS had the following programs (cash and noncash) that met the Type A program definition for FY 05, some of which were administered by more than one (1) state agency. Certain component units and agencies audited by certified public accounting firms had lower dollar thresholds. CHFS identified four (4) clusters among the Type A programs by gray shading. These Type A programs and clusters were:

CFDA #	Program Title	Expenditures
Food Stamp Cluster:		
10.551	Food Stamps	\$ 597,365,451
10.561	State Administrative Matching Grants for Food Stamp Program	28,653,559
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	96,514,894
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	22,505,440
93.558	Temporary Assistance for Needy Families	131,409,862
93.563	Child Support Enforcement	38,403,099
93.568	Low-Income Home Energy Assistance	30,096,025

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Note 2 - Type A Programs (Continued)

CFDA #	Program Title	Expenditures
Child Care Cluster:		
93.575	Child Care and Development Block Grant	69,155,935
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	46,692,201
93.658	Foster Care - Title IV-E	51,941,249
93.659	Adoption Assistance	23,629,723
93.767	State Children's Insurance Program	70,319,732
Medicaid Cluster:		
93.777	State Survey and Certification of Health Care Providers and Suppliers	6,092,161
93.778	Medical Assistance Program	3,037,272,436
93.959	Block Grants for Prevention and Treatment of Substance Abuse	20,794,641
Disability Insurance/SSI Cluster:		
96.001	Social Security - Disability Insurance	39,028,702
Total Type A Programs		<u>\$ 4,309,875,110</u>

Note 3 - Noncash Expenditure Programs

CHFS' noncash programs and a description of the method/basis of valuation follow.

CFDA #	Program Title	Amount	Method/Basis of Valuation
10.551	Food Stamps	\$597,365,451	Electronic Benefit Transfer Issuance.
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	35,778	Per authorized award.
93.268	Immunization Grants	13,194,857	Per authorized award for personnel, vaccine costs, and travel.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Note 3 - Noncash Expenditure Programs (Continued)

CFDA #	Program Title	Amount	Method/Basis of Valuation
93.283	Centers For Disease Control And Prevention - Investigation And Technical Assistance	968,892	Per authorized award.
93.940	HIV Prevention Activities - Health Department Based	8,887	Per authorized award.
93.977	Preventive Health Services - Sexually Transmitted Diseases Control Grants	297,856	Per authorized award.
Total Noncash Expenditures		<u>611,871,721</u>	

Note 4 - Zero Expenditure Programs

These programs had no expenditures related to CHFS during FY 05. The zero expenditure programs included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-1: The Cabinet For Health And Family Services Should Strengthen The Security Of System Accounts

During the security vulnerability assessments for FY 05 for machines controlled by the Cabinet for Health and Family Services (CHFS), our examination revealed: administrator accounts that had not been renamed; guest accounts that had not been disabled; various user accounts with password ages that exceeded established password policy, indicating they are inactive accounts that may not be necessary or that the password policy is not being properly enforced; and accounts that had never been logged into.

We obtained NetBIOS (Network Basic Input/Output System) account information from 27 CHFS machines. Nine (9) of these machines did not have the default administrator account adequately named, eight (8) of which were noted during the FY 03 and/or FY 04 audit reports with the same issue. The default guest account had not been disabled for 17 of the 27 machines, nine (9) of which were noted during the FY 04 review. The Administrator account was logged into using the default administrator account name and a blank password on one machine, allowing the auditor to copy information from the machine.

Further to determine if user accounts on these machines were in compliance with established policies the auditor used the criterion that account passwords with ages over 31-days were non-compliant. There were 104 of the 324, or approximately 32%, of the Administrator accounts with a password age of 32 to 1,795 days old.

One hundred and four of the 324, or approximately 32%, of the Administrator accounts and four (4) of the guest accounts had never been used. Out of 12,117 user accounts, there were 3,516 user accounts, or approximately 29%, that had never been logged into and 1,077 user accounts, or approximately 8%, with a password age of 32 to 1,957 days old.

One (1) machine was using a Nessus Guest account. This scanner reports weaknesses and identifies the location of reports resulting from the network scans. This account name should be changed.

Also, as noted during the prior year's review, within the comment section for nine (9) administrator accounts and 1,049 user accounts, the auditor noted the string "ssn ####", where the "####" value is numeric. This data would appear to be the last four digits of the person's social security number (SSN). Beyond these accounts, there were 43 Administrator accounts and 3,702 user accounts where the comment section included a four-digit string and no alphanumeric characters, possibly representing additional instances of the last four (4) digits of the individual's social. If an account identifier is required then something other than the user's social security number should be used.

The use of default accounts, lax enforcement of the agency's established password policy, the existence of unused accounts, or revelation of personal information, increases the likelihood that accounts could be compromised, as well as the underlying data accessible by those accounts.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-1: The Cabinet For Health And Family Services Should Strengthen The Security Of System Accounts (Continued)

Default administrator and guest accounts in operating system and applications are some of the first accounts that an intruder will attempt to use; therefore, they should be assigned strong passwords or where possible, renamed, removed or disabled immediately after installation. Further, intruders often use inactive or default accounts to break into a network. If an account has not been used for a reasonable period of time, the account should be disabled until it is needed. This minimizes the possibility that an unauthorized user will access the account. An account should be deleted if it is not going to be reinstated. Personal data should not be readily available.

Recommendation

We recommend CHFS take the following actions:

- Default administrator accounts should be renamed to something more ambiguous in order to prevent unauthorized access.
- All accounts on all machines should be reviewed to determine which accounts have not changed their passwords within the last 31 days. These accounts should be evaluated to determine if they are still valid accounts and are required for a business related purpose. If not, the accounts should be disabled or deleted depending on the necessity of reinstatement of the account.
- Personal information, including social security numbers, should not be used to identify an account. Per the agencies response during the prior year's review, the last four (4) digits of the social are used as a security measure when taking actions on the individual's account. This procedure is coupled with call back to the individual workstations. However, this process still poses a security risk of providing the personal information to intruders and should be evaluated by the agency.

Management's Response and Corrective Action Plan

A Network Analyst has reviewed this document and noted the specified problems for review. We received the Auditor's full report including IP addresses on July 22, 2005 but have not yet been able to complete a thorough investigation of each of the documented machines. We have already done our own network scan of all the IP addresses mentioned in the full Auditor's report to gather some initial information and verify the findings from the Auditor's report. We found that some of the IP addresses were completely unresponsive, and that some IP addresses did not seem to exhibit the problems noted in the report. Possibly the wide use of DHCP (Dynamic Host Configuration Protocol) caused the second discrepancy. However, we also found that many of the IP addresses specified in the report did exhibit the

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-1: The Cabinet For Health And Family Services Should Strengthen The Security Of System Accounts (Continued)

Management's Response and Corrective Action Plan (Continued)

problems specified, and we will work to remedy those in a timely manner. Our security team will research each server noted in the Auditor's full report as having default account names for administrator, and guest. We will also check all servers where non-compliance password age was noted. We will also submit valid reasons to the Auditor's office for any suggestions in this document that we do not plan to follow.

We will provide documentation about steps taken or not taken with specific machines when we have had more time to work on these issues.

FINDING 05-CHFS-2: The Cabinet For Health And Family Services' Password Policy Should Be Consistently Applied To All Local Area Network Machines

As was noted in the prior audit reports, password policies established on certain critical CHFS machines did not adhere to the Commonwealth Office of Technology (COT) or CHFS password policies. During the FY 05 audit, testing was performed to determine the accessibility of the password policies of machines within the seven CHFS domains using vulnerability assessment tools. Password policies obtained were reviewed for compliance to established policy standards. Of 76 machines tested, we were able to obtain the password policies for 18, or approximately 23.7 percent, of these machines. Ten of the 18 machines were also noted during the prior year's review. Twelve of the 18 machines revealed noncompliant password policies. See the table below for a summary of our findings.

Security Measure	COT Security Policy	Number of machines noncompliant (Out of 18 machines)
Minimum Length	8 characters	7 characters - 3 0 characters - 5 <i>Seven noted during the prior review</i>
Minimum Age	1 day	0 days - 8 <i>Six noted during the prior review</i>
Maximum age	31 days	42 days - 4 45 days - 3 <i>Six noted during the prior review</i>
Lockout Threshold	3 attempts	0 attempts - 5 4 attempts - 1 5 attempts - 2 <i>Four noted during the prior review</i>

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-2: The Cabinet For Health And Family Services' Password Policy Should Be Consistently Applied To All Local Area Network Machines (Continued)

If password policies are weak and inconsistently applied, the agency could potentially be vulnerable to unauthorized access or disruption of service caused by an intruder. The failure to follow adequate policy standards when establishing a system password could ultimately compromise the entire network.

Passwords are a significant feature to guard against unauthorized system access. The purpose of a password policy is to establish a standard to create strong passwords, to protect those passwords, and to ensure passwords are changed within a specified time period. To assist in the security of a network, it is necessary for a strong policy to be developed and consistently implemented on all machines throughout the network.

As noted above, there are several issues that were also reported during the prior year's review. The scan that resulted in this comment was performed prior to the CHFS reviewing our prior assessment and essentially taking any corrective action. There may be several issues that may be resolved. Where applicable this should be noted in the agency's response.

Recommendation

We recommend that CHFS periodically review all machines within its agency-owned domains to ensure the password policy established on the machines comply with the guidelines specified by the agency and the COT. Further, procedures should be established to periodically review these settings for all CHFS machines and ensure all accounts comply with the established password policy.

Management's Response and Corrective Action Plan

A Network Analyst has reviewed this document and noted the specified problems for review. We received the Auditor's full report including IP addresses on July 22, 2005 but have not yet been able to complete a thorough investigation of each of the documented machines. We have already done our own network scan of all the IP addresses mentioned in the full Auditor's report to gather some initial information and verify the findings from the Auditor's report. We found that some of the IP addresses were completely unresponsive, and that some IP addresses did not seem to exhibit the problems noted in the report. Possibly the wide use of DHCP caused the second discrepancy. However, we also found that many of the IP addresses specified in the report did exhibit the problems specified, and we will work to remedy those in a timely manner. Our security team will research each server noted in the Auditor's full report as having non-compliant password policies. We will also submit valid reasons to the Auditor's office for any suggestions in this document that we do not plan to follow.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-CHFS-2: The Cabinet For Health And Family Services' Password Policy Should Be Consistently Applied To All Local Area Network Machines (Continued)**

Management's Response and Corrective Action Plan (Continued)

Our password policy for the CHFS domain will be pushed by AD (Active Directory) Group Policy. Our migration of workstations to the new AD domain is about 90% complete now. This migration should bring the local password policies into compliance on all machines in the CHFS domain.

FINDING 05-CHFS-3: The Cabinet For Health And Family Services Should Develop And Implement Adequate System Development Life Cycles Policies And Procedures Governing Controls For Program Development And Modifications

During our review of program modification procedures for FY 05, it was revealed that the CHFS did not develop and implement adequate System Development Life Cycle (SDLC) policies and procedures governing controls for program development and modifications. Though system design change request tracking procedures have been documented and generally include the design change process, the procedures are very informal and do not govern specification requirements, prohibit informal communications regarding critical system or program changes, require the Department for Medicaid Services (DMS) to formally approve testing by signing off on request forms prior to implementation, and are not consistently followed.

Due to a significant error in processing, modifications specific to the Medicaid Buy-In program were reviewed by the auditor during FY 05. Review of the number and significance of the modifications made to the buy-in program, following implementation, implies that the specifications of the programs to be rewritten were not complete prior to the initial program development. Therefore, it is necessary to comment on the lack of formal and complete program specifications provided by management prior to development or major modification of the buy-in program.

Review of the documentation supporting the multiple changes made to the buy-in program reflect a lack of program specifications that govern the new system design and all critical changes made to the program through out the correction process. A majority of the communication between DMS and Unisys, where evident, was informal via email or referenced phone conversations. Further, though the rewrite of the buy-in program was implemented in August 2004, the Design Change Request (DCR) did not reflect approval of testing by DMS.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-3: The Cabinet For Health And Family Services Should Develop And Implement Adequate System Development Life Cycles Policies And Procedures Governing Controls For Program Development And Modifications (Continued)

Also, review of program change procedures as they govern 'general' requests revealed the documented process of sending a finalization letter to Unisys following the implementation of the program changes, to allow the change request to be closed has not been consistently followed.

In August 2004, a rewrite of the Kentucky Medicaid Management Information System (KMMIS) was implemented. Per the agency, subsequent to implementing the system there were approximately 4,817 recipients who were accreted for Medicare premium payment in error, totaling \$4,942,698. It appears this issue was a result of relying on the Bendex file data in determining eligibility to later find that the Bendex file data was not a reliable source and did not consider all program and status code limitations. To resolve the issues CHFS modified the program to halt reliance on the Bendex File and take into consideration Program and Status Code limitations that were not included in the original program specifications and not considered when creating the file that identifies individuals eligible for the Buy-In of Medicare. However, the issue continued to be unresolved until September or October 2004 since the agency wasn't considering the Medicaid eligibility 'end date' and the 'date of death' fields in determining eligibility for Medicare buy-in.

Without formalized SDLC procedures, management increases the risk of developing and implementing ineffective, or inaccurate systems. SDLC procedures require adequate program specifications be provided to a programmer prior to program development as well as adequate testing be performed prior to implementation. This allows the agency to mitigate processing errors and reduces the need for numerous program modifications. Requests for all critical changes should be formally documented to ensure desired objectives are achieved. Sufficient procedures dictate that complete and accurate system documentation be developed and maintained for all critical systems, as this information is vital to ensuring longevity of the system. Further, SDLC procedures must be consistently applied.

Recommendation

We recommend that CHFS expand the program change procedures to include the following:

- Ensure formal specifications are provided to the third-party processor for all critical program change requests,
- Guidance should be provided on documenting and communicating any specifications provided to the third-party processor,
- Ensure the DCR/DRF form used for program changes is signed off to indicate acceptance of testing and approval of the change to be placed into production, and

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-3: The Cabinet For Health And Family Services Should Develop And Implement Adequate System Development Life Cycles Policies And Procedures Governing Controls For Program Development And Modifications (Continued)

- Ensure the Finalization Letter be sent to Unisys to show completion of requested program changes.

CHFS should enforce these procedures to ensure they are consistently applied.

Management's Response and Corrective Action Plan

SDLC methodology establishes procedures, practices and guidelines governing the initiation, concept development, planning, requirements analysis, design, development, integration and test, implementation, and operations, maintenance and disposition of information systems. Without formalized procedures, increased risk of developing and implementing ineffective or inaccurate system changes can occur. DMS Management is in agreement that the existing System Change Request process does not formally follow the Systems Development Life Cycle (SDLC) process, however the nature of system changes and the time constraints for implementation occasionally make it difficult to follow the SDLC process. Every effort is made by DMS staff to be as diligent and detailed as possible.

In response to the findings from this audit regarding the conditions that contributed to the Medicare premium payment error, the following corrective action plan related to the System Change Request process will be implemented to ensure that SDLC methodologies are utilized.

The existing Medicaid Inter-Office System Change Request form will be modified to require additional detailed information related to the specific request. The DMS Division requesting the system change will be required to provide additional details regarding the following topics: the project business need, product or service requested, stakeholders, system impact and processing requirements, response time requirements, reporting requirements, interfaces, security and timeframe requirements. The new Medicaid Inter-Office System Change Request form will be implemented in August 2005. The Division of Claims Management will provide instructional training on the new request form to each DMS Division during the month of August 2005.

The Claims Assistance Branch will be reeducated on the SDLC process to ensure proper understanding of planning and documentation requirements. DMS will require analysts to develop a formal specifications document in response to all System Change Requests. The formal specifications will require signoff by the DMS analysts and the System Change requestor. The formal specifications will be provided to the Unisys analysts prior to development efforts. Copies of all documentation are to be maintained by the DMS analysts.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-CHFS-3: The Cabinet For Health And Family Services Should Develop
And Implement Adequate System Development Life Cycles Policies And Procedures
Governing Controls For Program Development And Modifications (Continued)****Management's Response and Corrective Action Plan (Continued)**

Upon review of the formal specifications document from DMS, the Unisys analysts will develop the system programming requirements necessary to meet the required specifications. The programming requirements document will be provided to the DMS analysts for review and approval. The programming requirements document will require signoff by the DMS analysts and the Unisys analysts.

Once the programming changes have been completed a meeting will be coordinated between Unisys and DMS to review testing. DMS policy staff will be included in the testing meeting and will be required to approve testing as complete prior to moving the system change into production. The System Change Request form requires signoff by the DMS Analysts, DMS policy staff, and the Unisys Analyst. Once signoffs are complete the system change is moved to the production environment. DMS will maintain the signed System Change Request form as formal documentation. As a continuation to our current procedures a formalized letter will be sent to Unisys to verify completion of the requested change.

The DMS analysts will maintain copies of all documentation related to the System Change Request including the following: Medicaid Inter-Office System Change Request form, System Change Request form, Specifications Document, Programming Requirements Document, and Testing Documentation. Any additional documentation related to work conducted on the System Change Request will also be maintained by the DMS analysts.

As part of Medicaid Modernization DMS has contracted with EDS (Electronic Data Systems Corporation) to transition the MMIS from Unisys. The Unisys contract ends November 30, 2005; at that time EDS will takeover the existing system. To prepare for this transition a system change freeze is in effect for August 31, 2005 (memo distributed to DMS staff on 7/18/05). All new or existing system changes which are not completed by August 31st will be placed on hold until December 1, 2005 when EDS will take over the MMIS and the responsibilities for system changes.

The EDS processes related to System Change Requests are currently being reviewed. The procedures proposed by EDS follows the SDLC methodology with formalized documentation requirements and automated tracking capabilities. EDS documentation is maintained within the Project Workbook (PWB). The PWB is an online tool which contains extensive documentation regarding EDS and the MMIS.

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Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-3: The Cabinet For Health And Family Services Should Develop And Implement Adequate System Development Life Cycles Policies And Procedures Governing Controls For Program Development And Modifications (Continued)

Management's Response and Corrective Action Plan (Continued)

Documentation templates (available on the PWB) are used when producing internal and external deliverables. These deliverables are used to obtain internal and external customer approval of any project phases which have been completed. The EDS SDLC model utilizes the following phases to ensure optimal work products: Define (Development of project scope and estimate), Analyze (Analyze data and logical processes), Design-Business (Changes to user inputs and outputs. Identify user acceptance tasks and criteria), Design-Technical (Physical design of processes and system components), Produce (Application modification and controlled testing), System Test (Test environment utilization of new/changed applications), Implementation (Migration of applications to production environment), and post implementation (Monitor and verification activities for new production process).

DMS will begin to incorporate the use of EDS procedures related to System Change Requests once they are finalized and approved by the Commonwealth. EDS will also provide a model office environment as of December 1, 2005. This MMIS test environment will provide for enhanced testing procedures to be utilized for system change requests.

FINDING 05-CHFS-4: The Cabinet For Health And Family Services Should Develop Automated Analysis Procedures To Identify High Risk Transactions Within Benefit Programs

Certain audit procedures were performed within selected CHFS benefit systems to identify lax or weak program control procedures. The following seven (7) CHFS benefit systems were included in this review:

- Family Alternative Diversion (FAD)
- Kentucky Transitional Assistance Program (KTAP)
- Special Circumstances Payments
- System Tracking Employability Program (STEP)
- State Supplemental Payments
- Medical Assistance Payments
- Food Stamps

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-4: The Cabinet For Health And Family Services Should Develop Automated Analysis Procedures To Identify High Risk Transactions Within Benefit Programs (Continued)

Audit procedures were performed using automated analytical processes designed to assist in identifying transactions with a higher risk of fund misappropriation. Discussions with CHFS personnel revealed that although certain manual procedures existed, automated procedures had not been developed similar to those designed by the auditor to perform the following:

Match Personnel Information to Benefits

Only a manual review process exists in each region that attempts to identify benefits provided to employees of the Department for Community Based Services (DCBS) or mailed to employee home addresses.

Identify Cases or Benefits Paid Outside of Kentucky

During a prospective participant's original interview, the individual is asked whether he or she is a resident of Kentucky. The participant's answer to this question is entered into the system. If this answer is "No," then the system will not process a claim. However, no edit exists to review for mailing or payment addresses outside the state.

Identify Multiple Benefits For Same Type and Cycle

An automated process does not exist within the systems to identify multiple payments to the same individual for the same benefit type and cycle.

Identify Payments Sent to DCBS Office

Although it is acceptable in some instances for a case recipient's payment to be mailed to the DCBS office, it is not the usual process and, therefore, the DCBS Operation Manual details additional controls to be followed. No automated process exists within the systems to identify payments being sent to DCBS offices.

As stewards of state and federal funds, it is imperative that agencies develop and consistently apply safeguards to identify and prevent misappropriation of these funds. Such safeguards include, but are not limited to, using automated edits to ensure that input data complies with state and federal regulations and using automated reporting to highlight benefit payment transactions with a higher risk for misappropriation of funds that should be subjected to further scrutiny.

To ensure that the following recommendations relating to initiating additional control procedures are implemented, we recommend that a resource within the Office of Information Technology (OIT) be dedicated to perform the procedures detailed below for

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-4: The Cabinet For Health And Family Services Should Develop Automated Analysis Procedures To Identify High Risk Transactions Within Benefit Programs (Continued)

systems including:

- Family Alternative Diversion (FAD)
- Kentucky Transitional Assistance Program (KTAP)
- Special Circumstances Payments
- System Tracking Employability Program (STEP)
- State Supplemental Payments
- Medical Assistance Payments
- Food Stamps

An individual centrally located in OIT should be tasked with performing the data analyses described below to strengthen the control procedures over these programs. This employee should be provided assistance, when needed, from various system analysts and programmers in order to gain an understanding of the complexities of these systems and how to refine analysis procedures, when appropriate.

Recommendation

We recommend the agency develop and consistently apply the following types of control procedures to proactively monitor program benefits payments:

- Develop an automated process using the Personnel Cabinet employee personnel file data available to match against program benefit payments. This data match should be performed: 1) between the social security number on the personnel file and on the program case and 2) between the personnel file home address and the program case payment address. The personnel information file is updated daily, so an automated process could be performed as frequently as deemed necessary. The results of this procedure could be organized by region or specific offices and distributed for follow-up and response to the central office. We recommend at a minimum that this process be performed monthly.
- Develop a series of automated processes that would first identify those cases with the home or mailing address outside the state of Kentucky and then identify benefits mailed to an address outside of Kentucky. This process will require a manual review after the results are gathered to cull out those records related to vendors whose remittance address is outside the state. The results could be organized by region or specific offices and distributed for follow-up and response to the central office. We recommend at a minimum that this process be performed monthly.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-4: The Cabinet For Health And Family Services Should Develop Automated Analysis Procedures To Identify High Risk Transactions Within Benefit Programs (Continued)

Recommendation

- Develop a series of automated processes to identify individuals receiving multiple benefits for the same benefit type and cycle. To determine whether multiple payments are truly being received, we recommend using three primary criteria to identify multiple payments for the same benefit type and cycle: 1) the same address, 2) the same payee name, and 3) the same case number. The results of this process could be organized by region or specific offices and distributed for follow-up and response to the central office. We recommend that this process be performed on a monthly or on a cyclical basis based on the type of benefit.
- Develop an automated process to identify all payments from the systems that are sent to a DCBS field office address. The results could be organized by region or specific offices and distributed for follow-up and response to the central office. We recommend at a minimum this process be performed on a monthly basis.

Management's Response and Corrective Action Plan

Individual Resource

OIT Response: It is the recommendation of both OIT and DCBS that this person be located in central office of DCBS. This person will need to analyze the data and report findings to DCBS field staff.

Personnel File Match to Program Benefit Payments

OIT Response: If the Personnel Cabinet will provide OIT with the employee data, the following new reports could be created and put to RDS for review on a monthly basis by the service region staff. Access to the report on RDS would be restricted by user id. Match by SSN all state employees to the SSNs in receipt of benefits on our systems.

Cost estimates for creating new monthly reports based upon SSN match only.

<i>STEP:</i>	<i>Requirement hrs: 10</i>	<i>Development hrs: 20</i>
	<i>Testing hrs: 20 =</i>	<i>Total hrs: 50 hours</i>
<i>SDX:</i>	<i>Requirement hrs: 10</i>	<i>Development hrs: 20</i>
	<i>Testing hrs: 20 =</i>	<i>Total hrs: 50 hours</i>
<i>FAD:</i>	<i>Requirement hrs: 10</i>	<i>Development hrs: 25</i>
	<i>Testing hrs: 20 =</i>	<i>Total hrs: 55 hours</i>
<i>PAS:</i>	<i>Requirement hrs: 15</i>	<i>Development hrs: 25</i>
	<i>Testing hrs: 20 =</i>	<i>Total hrs: 60 hours</i>
<i>KAMES:</i>	<i>Requirement hrs: 15</i>	<i>Development hrs: 20</i>
	<i>Testing hrs: 20 =</i>	<i>Total hrs: 55 hours</i>

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-4: The Cabinet For Health And Family Services Should Develop Automated Analysis Procedures To Identify High Risk Transactions Within Benefit Programs (Continued)

Management's Response and Corrective Action Plan (Continued)

The match between Personnel's addresses against our systems' addresses could be difficult due to the different formats contained in the systems. We would recommend not matching against Employee's address due to these reasons.

Home or Mailing Addresses Outside Kentucky

OIT Response: We recommend a new report be created and put to RDS for review on a monthly basis by the service region staff. Access to the report on RDS would be restricted by user id.

<i>STEP:</i>	<i>Requirement hrs: 10</i>	<i>Development hrs: 30</i>
	<i>Testing hrs: 20 =</i>	<i>Total hrs: 60 hours</i>
<i>SDX:</i>	<i>Requirement hrs: 10</i>	<i>Development hrs: 25</i>
	<i>Testing hrs: 15 =</i>	<i>Total hrs: 50 hours</i>
<i>FAD:</i>	<i>Requirement hrs: 10</i>	<i>Development hrs: 25</i>
	<i>Testing hrs: 15 =</i>	<i>Total hrs: 50 hours</i>
<i>PAS:</i>	<i>Requirement hrs: 15</i>	<i>Development hrs: 25</i>
	<i>Testing hrs: 20 =</i>	<i>Total hrs: 60 hours</i>
<i>KAMES:</i>	<i>Requirement hrs: 15</i>	<i>Development hrs: 20</i>
	<i>Testing hrs: 20 =</i>	<i>Total hrs: 50 hours</i>

In addition, online system edits could be added to KAMES to restrict the state code to KY or one of the surrounding states – TN, WV, OH, MS, IN. This edit could not be placed on FAD or STEP due to vendor payments being mailed to corporate offices. Also, PAS and SDX could not be restricted due to checks needing to be mailed to someone out of state.

<i>KAMES:</i>	<i>Requirement hrs: 15</i>	<i>Development hrs: 20</i>
	<i>Testing hrs: 20 =</i>	<i>Total hrs: 55 hours</i>

Multiple Benefits for Same Benefit Type and Cycle

OIT Response: Current special circumstance reports are created and reviewed by regional staff and findings are reported to Central Office on a monthly basis. As current system edits are already in place to prevent actual duplicate benefits, we do not recommend any additional reports.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-4: The Cabinet For Health And Family Services Should Develop Automated Analysis Procedures To Identify High Risk Transactions Within Benefit Programs (Continued)

Management's Response and Corrective Action Plan (Continued)

Payments Sent To DCBS Field Offices

OIT Response: New reports could be created on a monthly basis, matching the local office address to all payments issued. This report would be loaded to RDS with restricted access and reviewed by designated regional office staff.

<i>STEP:</i>	<i>Requirement hrs: 20</i>	<i>Development hrs: 30</i>
	<i>Testing hrs: 25 =</i>	<i>Total hrs: 75 hours</i>
<i>FAD:</i>	<i>Requirement hrs: 20</i>	<i>Development hrs: 30</i>
	<i>Testing hrs: 25 =</i>	<i>Total hrs: 75 hours</i>
<i>PAS:</i>	<i>Requirement hrs: 20</i>	<i>Development hrs: 30</i>
	<i>Testing hrs: 25 =</i>	<i>Total hrs: 75 hours</i>
<i>KAMES:</i>	<i>Requirement hrs: 20</i>	<i>Development hrs: 40</i>
	<i>Testing hrs: 30 =</i>	<i>Total hrs: 90 hours</i>

No payments are issued from SDX.

Auditor's Reply

We continue to recommend that CHFS develop periodic reports to determine whether multiple benefits payments are being made to the same individual for the same benefit type and cycle. This type of report can be very useful in determining whether system edits are functioning as expected. In the case of two (2) of the CHFS benefit systems, STEP and State Supplemental, our review for multiple benefit payments led CHFS to determine previously unknown problems existed within current system edits that allowed a person, under certain circumstances, to receive more than one benefit payment for the same benefit type and cycle.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-5: The Cabinet For Health And Family Services Should Review System Edits Related To Program Limitations

Certain audit procedures were performed to identify transactions within selected CHFS benefit systems that had a higher risk for misappropriation of funds. Testing revealed that certain systems did not appear to have edits functioning to help identify or prevent transactions that should either be disallowed or that should be subjected to additional scrutiny by CHFS employees. Specifically, edits were identified that appeared to not be functioning as expected within the FAD and STEP systems. The findings, grouped by system and benefit type, are as follows:

FAD Benefits Over \$1,300

FAD system edits exist within the system that should not allow a case recipient's benefits to exceed the \$1,300 limit within a three-month period. However, review of the FAD payments for FY 05 identified cases where the \$1,300 limit within a three-month period was exceeded.

STEP Car Repair Benefits Over \$500

STEP system edits exist that should not allow a case recipient's car repair benefits to exceed the \$500 limit per year. However, review of the STEP payments for FY 05 identified cases where the \$500 limit was exceeded within that 12-month period.

STEP Work Incentive Benefits Over \$130

STEP system edits exist that should not allow a case recipient's Work Incentive (WIN) benefits to exceed the \$130 limit per month. However, review of the STEP payments for FY 05 identified cases where the \$130 limit per month was exceeded.

STEP Transportation Benefits Over \$60

STEP system edits exist that should not allow a case recipient's Transportation benefits to exceed the \$60 limit per month. However, review of the STEP payments for FY 05 identified cases where the \$60 limit per month was exceeded.

When limitations on benefits are prescribed by federal or state legislation, these limits should be applied to all related claims. If system edits are relied upon to enforce these limitations, then the claims should be periodically reviewed to ensure that the edits are functioning as expected. Overrides of established system edits should be limited and should be subjected to appropriate subsequent review by management.

Recommendation

We recommend that the specific cases noted above be scrutinized to determine the reason that the applicable limit was allowed to be exceeded. If the system allowed the overpayment due to a flaw in the applicable edits, then the edits should be modified to disallow a requested claim over the limit. If a supervisor or caseworker overrode or circumvented the edit to force the overpayment, the occurrence should be evaluated to determine the appropriate action to be taken.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-5: The Cabinet For Health And Family Services Should Review System Edits Related To Program Limitations (Continued)

Recommendation (Continued)

Further, we recommend that the agency create automated processes to review the following items on a periodic basis:

- Cumulative FAD payments by case to determine whether the amount exceeded the \$1,300 limit for a three-month period;
- Cumulative STEP car repair payments by case to determine whether the amount exceeds the \$500 limit for a 12-month period;
- Cumulative STEP WIN payments by case to determine whether the amount exceeded the \$130 limit for a one-month period; and,
- Cumulative STEP Transportation payments by case to determine whether the amount exceeded the designated maximum limit for a one-month period.

Any instances found of an overpayment of benefits should be examined by the regional or specific office and a response provided to the central office.

Management's Response and Corrective Action Plan

FAD Benefits Over \$1,300

OIT Response: Current system edits already exist to prevent the case from receiving more than \$1300 in a 3-month period. We believe checks being returned and deleted from FAD are not being reflected on the MARS system. Therefore, it can appear that the case received more than \$1300 when viewing only the MARS files. When a check is returned, the payment is deleted from FAD and the balance readjusted, so that a new payment can be reissued. The FAD system reflects the payment deletion. When the payment is deleted and reissued, DCBS Division of Family Support staff notifies DCBS fiscal staff to deposit the returned check back in to the correct funding stream. MARS is not adjusted when the FAD system is manually adjusted. This accounts for the discrepancies between payments on FAD and MARS, 2 cases were sited.

OIT's short-term recommendation is to create a new report identifying all payments deleted after they have been issued. OIT estimates it will take a total of 60 hours to analyze, program and test this new report. (Requirements/analysis hours: 15; Development hours: 25; Testing hours: 20)

OIT's long-term recommendation would be to research this area for automated improvements during the DCBS Modernization Project, KAAAP (Kentucky Access, Accuracy and Accountability Project) project. The first phase of KAAAP is set to begin in the Spring 2006.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-CHFS-5: The Cabinet For Health And Family Services Should Review
System Edits Related To Program Limitations (Continued)****Management's Response and Corrective Action Plan (Continued)****STEP Car Repair Benefits Over \$500**

OIT Response: There are edits in STEP that prevent cases from receiving more than \$500 for car repairs within a 12-month timeframe. The 12-month period begins with the issuance date of the first car repair payment for that case. The year's time frame is not calculated by the state fiscal year calendar, but rather by the date of the first car repair payment. Therefore, if the 12-month date calculation was based on the state fiscal year, it could appear the recipient received more than \$500 in a 12-month period.

If a check is returned, the payment is deleted from STEP and the balance readjusted, so that a new payment can be reissued. When the payment is deleted and reissued, DCBS Division of Family Support staff notifies DCBS fiscal staff to deposit the returned check back in to the correct funding stream. MARS is not adjusted when the STEP system is manually adjusted. This could also account for the discrepancies between payments on STEP and MARS, 130 cases were sited.

As current system edits prevent this situation from occurring, we do not recommend a new report be created. This is an area that we anticipate will be researched for automated improvements during the DCBS Modernization Project (KAAAP). The first phase of KAAAP (Kentucky Access, Accuracy and Accountability Project) is set to begin in the Spring 2006.

STEP Work Incentive Benefits Over \$130

OIT Response: Edits exist in STEP that prevents a WIN payment from exceeding \$130 per pay month. Workers are able to issue two WIN payments during a month but only if the payments are for different pay months. This may be done due to a payment owed for a prior month. When a STEP check is returned, the payment is deleted from STEP and the balance readjusted so that a new payment can be reissued. When the payment is deleted and reissued, DCBS Division of Family Support staff notifies DCBS fiscal staff to deposit the returned check back in to the correct funding stream. MARS is not adjusted when the STEP system is manually adjusted. This could also account for the discrepancies between payments on STEP and MARS.

Recommendation is to create a new monthly report showing those recipients who receive multiple WIN payments in the same calendar month but different benefit months. OIT estimates it will take 47 hours to analyze, program and test this new report (Requirements/analysis hours: 12; Development hours: 20 hrs; Testing hours: 15 hours).

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-CHFS-5: The Cabinet For Health And Family Services Should Review
System Edits Related To Program Limitations (Continued)****Management's Response and Corrective Action Plan (Continued)**

We also recommend producing a new report identifying all payments deleted after they have been issued. This report would require a total of 65 hours (Requirement/analysis hours: 15 hours; Development: 30 hours; Testing: 20 hours). DCBS Central Office Staff would maintain these reports for use in reconciling future audits.

This is an area that we anticipate will be researched for automated improvements during the DCBS Modernization Project (KAAAP). The first phase of KAAAP (Kentucky Access, Accuracy and Accountability Project) is set to begin in the Spring 2006.

STEP Transportation Benefits Over \$60

OIT Response: Current edits in STEP prevent workers from issuing more than one payment per benefit month. The amount of the payment depends on the number of days the recipient participated. Some payments may exceed \$60 if approved by DCBS Central Office Staff. A system edit problem was detected in STEP for transportation benefits over \$60 per month. An emergency change request was written to correct this problem on 2/13/06. System edit error was corrected.

STEP has current reports showing transportation payments issued for more than \$60. These reports are saved to RDS and are available for review by DCBS staff. FAD and STEP payments deleted from the systems are deleted by Central Office staff only and are tracked. There are security restrictions to the delete function within the system, and then RACF security restrictions are on the system transactions that actually delete the payments. Emails are maintained of the deletion request. Hardcopies of the e-mail along with hardcopy screen prints associated with the payment deletion are also maintained.

Also, workers can issue more than one payment in a month if it is for a different benefit month. This may be done due to a payment owed for a prior benefit month, 296 cases sited. (Example: Worker issues a transportation payment on Feb 9, 2006, for the benefit month of Feb 2006. At the same time, the worker owes the recipient transportation payment for the benefit month of Jan 2006. Therefore, the worker issues another transportation payment for the benefit month Jan 2006).

This is an area that we anticipate will be researched for automated improvements during the DCBS Modernization Project (KAAAP). The first phase of KAAAP (Kentucky Access, Accuracy and Accountability Project) is set to begin in the Spring 2006.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-6: The Cabinet For Health And Family Services Should Implement Controls To Ensure Proper Preparation And Review Of Closing Package Forms

During our audit of the Accounts Receivable AFR (Annual Financial Report) forms, we noted several problems in the FY 05 audit that had been brought to the agency's attention previously. Specifically, the agency:

- Did not split the Child Support receivable amount in agency 748, fund 1200 and agency 746, fund 1400 between "Within 30 Days" and "Over 30 Days."
- Reported the "Net Receivable" rather than the "Gross Receivable" for Mental Health and Mental Retardation, agency 729, fund 1300.
- Changed the methodology of reporting "Cash on Hand." The new methodology was not followed in FY 05 in agency 748, fund 1200.

Two (2) new issues noted in FY 05:

- An instance of "Revenue Earned Not Received" being reported as "Deferred Revenue" was found in agency 746, fund 1200.
- The "Revenue Earned Not Received" was overstated due to PX expenditures being omitted from the submitted AFR forms.

The agency did not incorporate prior year audit suggestions when preparing or reviewing the FY 05 AFR forms. Adjustments were recommended to and made by the Finance and Administration Cabinet as follows:

- Child Support receivable for "Within 30 Days" amount overstated and "Over 30 Days" understated on the AFR-30 for agency 746, fund 1400 and agency 748, fund 1200 by \$10,279,869 and \$23,535,490 respectively.
- Mental Health and Mental Retardation receivable for "Within 30 Days" and "Over 30 Days" amounts were understated AFR-30 in agency 729, fund 1300 by \$9,740,501.
- Using the methodology agreed to in FY 04, but not applied in FY 05 related to "Cash on Hand" for agency 748, fund 1200 the amount was adjusted by \$106,667,163. This is a material adjustment to the CAFR.

FY 05 new issues resulted in one (1) adjustment both properly classifying "Deferred Revenue" as "Revenue Earned Not Received" and including PX expenditures that were omitted which resulted in agency 746, fund 1200 being overstated by \$2,293,803.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-CHFS-6: The Cabinet For Health And Family Services Should Implement Controls To Ensure Proper Preparation And Review Of Closing Package Forms (Continued)**

Good internal controls dictate the agency should incorporate agreed upon recommendations in the closing package process to ensure the information reported is accurate and reliable.

Recommendation

CHFS should document errors noted on the closing package each year and ensure those errors are fixed on subsequent closing packages. In addition, knowledgeable personnel should review the closing package to ensure previously noted errors are corrected.

Management's Response and Corrective Action Plan

In order to correct these issues the follow steps have already been taken. The worksheet that is used for the Medicaid Child support has already been changed so that it will calculate and categorize as requested. The other changes in regards to reporting "Gross" instead of "Net". This change has been made on the internal worksheet and preparation instructions for the closing package. This is also true with the Cash on Hand finding for 748 1200. It has been noted on work papers to use the Seagate Cash schedule in the calculation instead of the Federal Cash Award Schedule. All of the changes are noted in several areas to help ensure that they are not missed in the coming years closing package by the preparer.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-7: The Cabinet For Health And Family Services Should Obtain A SAS 70 Audit Report For Tier Technologies, Inc.

CHFS contracts with Tier Technologies (Tier) for services related to child support and Kentucky Children's Insurance Program (KCHIP). Tier is not required to receive a *Statement of Auditing Standards 70, Service Organizations*, (SAS 70) audit of the contractor's daily operations by an independent accounting firm. The SAS 70 audit would provide an in-depth audit of control activities, which would cover controls over information technology and related processes. We initially noted there was no audit of Tier's daily operations by an independent accounting firm in our FY 00 audit report. In the management response, CHFS indicated arrangements would be made for a bi-annual audit. No SAS 70 audit has ever been performed on Tier's Kentucky operations.

CHFS contracts with Tier as the central collection unit for collecting, processing, and depositing child support payments. During FY 05, Tier processed 82% or \$290,012,086 of the \$355,494,360 in child support collections and collected \$2,188,029 in fees for providing these services to the state.

In addition, CHFS contracts with Tier for maintaining the State case registry information relating to Non IV-D child support cases. As part of this contract, Tier enters court ordered support information into the state's KASES (Kentucky Automated Support Enforcement System) registry. CHFS paid Tier \$63,232 for this service in FY05.

CHFS has another contract with Tier for collecting, processing, and depositing premium payments for the KCHIP. During FY05, Tier processed \$2,179,733 of the KCHIP premiums and collected \$435,469 in fees for providing these services.

CHFS does not have assurance the existing internal controls are suitably designed to achieve the control objectives, nor do they know if controls were operating with sufficient effectiveness to provide reasonable assurance CHFS' objectives were met.

CHFS has oversight responsibility to ensure controls over collections are adequate to safeguard child support and KCHIP monies. Requiring Tier Technologies to have a SAS 70 audit performed would reveal whether controls were suitably designed to achieve specified control objectives, had been placed in operation as of a specific date, and whether controls tested were operating with sufficient effectiveness to provide reasonable assurance that related control objectives were met during the designated time period.

Recommendation

We recommend a SAS 70 audit (in-depth look at control activities) be required for the vendor awarded the contract for collecting, processing, and depositing child support and KCHIP monies and entering court orders into KASES.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-CHFS-7: The Cabinet For Health And Family Services Should Obtain
A SAS 70 Audit Report For Tier Technologies, Inc. (Continued)**

Recommendation (Continued)

The current contract for the central collection unit for child support expires in November 2006. A requirement for a SAS 70 audit should be included in the contract. If the contract with the current central collection unit vendor is extended, we recommend CHFS obtain a SAS 70 audit for significant operational controls impacting child support.

The contract to collect, process, and deposit KCHIP monies expires in June 2006. We recommend CHFS obtain a SAS 70 audit for significant operational controls impacting KCHIP.

Management's Response and Corrective Action Plan**Division of Child Support Response:**

An audit by an independent accounting firm to review the daily operations of the centralized collection unit will be included in the Invitation for Bid, which automatically incorporates the audit as a requirement of the contract. Since the contract for entering orders in private cases does not expire and the amount of this contract is much less than the collection unit, we will investigate including the audit provision in the next contract renewal. DCS cannot address the recommendation for the KCHIP finding.

Division of Medicaid Response:

The Department for Medicaid Services will work with the Office of Contracts Oversight during contract negotiations to include an SAS 70 audit for KCHIP.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-CHFS-8: The Cabinet For Health And Family Services, Disability Determination Services Should Ensure Its Disaster Recovery Plan Is Updated To Document Required Periodic Training And Testing Of Plan

As noted in our prior audit, the Department for Disability Determination Services (DDS) had not updated their Disaster Recovery Plan to address the following:

- Training of emergency personnel
- Annual testing of the recovery plan

During FY 05 DDS continued to periodically train staff on system recovery procedures. However, their disaster recovery plan (DRP) continues to exclude documentation that key personnel are required to attend periodic training and that the plan itself is to be tested periodically. Further, during June 2004 DDS migrated their operating environment from a WANG server (WANG Laboratory) to an IBM AS400 server. DDS has not updated its DRP or its system backup plan to reflect the migration into the new computing environment. Finally, an alternate processing location has not been selected in case of a catastrophe or for recovery testing purposes.

If training of emergency personnel and periodic testing of the Disaster Recovery Plan are not documented in the plan itself, the greater the likelihood of those procedures not being performed and that the agency will be unprepared in the case of an emergency. Similarly, without up-to-date system backup procedures and a designated alternate processing location, DDS would be left unprepared in the event of a disaster or major system disruption.

Due to a change in the timing of the auditor's review of certain IT processes and controls, the testing of FY 05 IT processes and controls was potentially conducted prior to the agency having an opportunity to remedy the issues identified in the FY 04 report comments.

Good management practices minimize risks through planning. The goal of a DRP is to improve preparedness at minimal cost using available resources. Not having complete and up-to-date documents that govern the DRP and its supporting processes increases the possibility of loss due to excessive recovery time and costs from a disruption of processing capabilities. Accordingly, proper documentation and periodic training for the DRP assures that DDS's computer systems can be recovered in cases of emergency, and that critical processes are not hindered by lengthy system down time. Also, having an alternate processing location helps ensure that down time is minimized.

Recommendation

We recommend CHFS, DDS update its formal DRP and their system back-up plan, where applicable, to document that training of emergency personnel and testing of

FINANCIAL STATEMENT FINDINGS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 05-CHFS-8: The Cabinet For Health And Family Services, Disability Determination Services Should Ensure Its Disaster Recovery Plan Is Updated To Document Required Periodic Training And Testing Of Plan (Continued)**

Recommendation (Continued)

the recovery plan should be performed periodically during the year. Further, DDS should replace procedures for the WANG environment within the DRP with procedures to be performed for the AS400 environment and designate an alternate location for processing in case the current facility is not available. Management should also ensure that the updated recovery plan is distributed to all applicable emergency personnel.

Management's Response and Corrective Action Plan

The Department accepts the thrust of the auditor's comments. The transition from the Wang as the key processor for the Department was completed in the summer of 2004 and the DRP has not yet been updated to reflect that. We have also not had mandated Department training, nor broad based practice simulations to test the workability of the plan. The training that the Department conducted in the past was geared to dealing with the more common problems of data loss and recovery.

The Department has started on correcting these deficiencies and has already contacted another agency in search for short-term quarters in the case of building loss. (If the auditor has suggestions regarding short-term relocations, we would be interested in hearing them.) We will be working, in the updated plan, to better define specific responsibilities, and to define a recovery coordinator. It is still too early in the process to fully outline the range of steps and actions that the department will take. The Commissioner is in full support of this process.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-CHFS-9: The Cabinet For Health And Family Services Should Ensure All Open Ports On Agency Machines Have A Business-Related Purpose

During the security vulnerability assessments for FY 05 for machines controlled by the CHFS, our examination revealed several machines with ports open that may not have a specific business-related purpose. We examined the open ports on 76 machines returning information during our scan. The findings, grouped by port number, are as follows:

Port 7 - Echo and Port 19 - Chargen

Four machines were found with port 7 open, three of which also had port 19 open. These ports are not necessary for the function of the server and could potentially be used to perpetuate a Denial of Service (DoS) attack.

Port 13 - Time

Four machines were found with port 13 open. This port is used for the Time service, which could allow a potential DoS attack.

Port 17 - Message of the Day

Two machines were found with port 17 open. This port is used for the Message of the Day service, which could allow a potential DoS attack.

Port 21 - FTP

Three machines were found with port 21 open that allowed an ftp session using anonymous logins, two of which were noted during the prior year's review. Additionally, one of these machines link the auditor to the /default.asp page through this port. This page appears to then pass information to the SHDOCVW.DLL file that in many cases is exploitable, leading to the full compromise of this host.

Port 23 - Telnet

One machine allowed a Telnet session using 'Guest' community string and another allowed a Telnet session using 'Guest' as the username and the password for a total of two machines with this port open.

Port 25 - Simple Mail Transfer Protocol (SMTP)

Three machines were noted as not running the most current version of Simple Mail Transfer Protocol (SMTP) that is available. There are vulnerabilities associated with the less current versions. One of these machines was noted during the prior year's review.

Port 80 - Hypertext Transfer Protocol (HTTP)

Configuration information for printers or print machines was provided by two websites. This situation allows too much access to an unauthorized or anonymous user and should be further protected. Both machines were noted during the prior two audits.

Port 111 - Unix SunRPC service

Four machines were found with port 111 open. Scanning on one of these machines indicated an infection by Sadmin. Backdoor.Sadmin is a backdoor worm program that

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-CHFS-9: The Cabinet For Health And Family Services Should Ensure All Open Ports On Agency Machines Have A Business-Related Purpose (Continued)

may affect systems that are running unpatched versions of Microsoft IIS or unpatched versions of Solaris.

Port 199 - snmp Unix multiplexer (smux)

One machine was found to have port 199 open, which normally indicates the existence of the snmp Unix multiplexer service.

Port 443 - Hypertext Transfer Protocol Secure (HTTPS)

Two machines were found with port 443 open. One, which was also noted during the prior year's review, displayed a login screen that allowed multiple attempts.

Port 446 - 448 - DDM

Two machines were found to have ports 446, 447, and 448 open, one of which was also noted during the prior year's review. These ports are used for the Distributed Data Management (DDM) service, which works in conjunction with the operating system to make a file on another user's computer appear local. Each of these ports is used for a different reason - port 446 runs DDM-RDB (Remote Relational Database), port 447 runs DDM-DFM (Distributed File Management), and port 448 runs DDM-SSL (Remote DB Access Using Secure Sockets).

Port 623 - ASF-RMCP

Two machines were found to have port 623 open, one of which was also noted during the prior year's review. Research indicated that this port could possibly be used for ASF – Remote Management and Control Protocol (RMCP), Auxiliary Bus Shunt (Aux_Bus_Shunt), and a Trojan.

Port 631 - Internet Printing Protocol (ipp)

Two machines were found with port 631 open, one of which is running version 2.10 that is susceptible to a DoS vulnerability as well as running software, Allegro RomPager, that is subject to cross scripting vulnerabilities.

Port 992 - telnet protocol over TLS (telnets)

Three machines were found to have port 992 open, which normally indicates the existence of the telnet protocol over TLS service.

Port 1028 - AMS

Five machines were found to have port 1028 open, which normally indicates the existence of the AMS service.

Port 1036 - radar service protocol (pcg-radar)

One machine was found to have port 1036 open, which normally indicates radar service protocol.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-CHFS-9: The Cabinet For Health And Family Services Should Ensure All Open Ports On Agency Machines Have A Business-Related Purpose (Continued)

Port 1040 - netsaint status daemon (netarx)

Two machines were found to have port 1040 open, which normally indicates the netsaint status daemon service.

Port 1089 - ff annunciation (ff-annunc)

One machine was found to have port 1089 open, which normally indicates the existence of the ff annunciation service.

Port 1370 - unix shell to globalview (us-gv)

One machine was found to have port 1370 open, which normally indicates the existence of the unix shell to globalview service.

Port 1414 - ibm-mqseries

One machine was found to have port 1414 open, which normally indicates the existence of the ibm-mqseries service.

Port 1454 - interhdl license manager (interhdl_elmd)

Three machines were found to have port 1454 open, which normally indicates the existence of the interhdl license manager service.

Port 2101 - RTCM-SC104

One machine was identified as having port 2101 open. This machine was also noted during the prior year's review. Port 2101 carries the industry-standard format, RTCM-SC104, for sending differential corrections to Global Positioning Systems.

Port 2301 - Compaq Information Manager (CIM)

Eight machines were found with port 2301 open. When the auditor attempted to connect to two of the ports, an error occurred that stated "Page Cannot Be Displayed".

Port 2381 - Compaq Information Manager (CIM) using SSL

One machine was found to have port 2381 open, which normally indicates that the CIM service is using SSL. When the auditor attempted to connect to the port, an error occurred that stated "Page Cannot Be Displayed".

Port 3003 - CGMS

One machine was found to have port 3003 open. Originally, it was thought that this port was used as the Copy Generation Management System (CGMS); however, given the banner that was received through the vulnerability tools used during this review, it appears to be running CICS (Customer Information Control System). If the security settings for CICS are not set properly, an intruder could obtain userid and password credentials. This machine was also noted during the prior year's review.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-CHFS-9: The Cabinet For Health And Family Services Should Ensure All Open Ports On Agency Machines Have A Business-Related Purpose (Continued)

Port 3004 - Csoft Agent

Two machines were determined to have port 3004 open, which is typically used for the Csoft Agent. Through the use of vulnerability tools, a banner was obtained from the program; however, the purpose of this port being open could not be determined. One of these machines was also noted during the prior year's review.

Port 3006 - II-Admin

One machine was found to have port 3006 open, which is used for Instant Internet Admin. Through the use of vulnerability tools, a banner was obtained from the program; however, the purpose of this port being open could not be determined. This machine was also noted during the prior year's review.

Port 3009 - PXC-NTFY

Two machines were found to have port 3009 open. This port is commonly used for the PXC-NTFY service; however, the purpose of this port being open could not be determined. One of these machines was noted during the prior year's review.

Port 3500 - RTMP

One machine was found to have port 3500 open, which is commonly used as the Real Time Management Protocol (RTMP) port. The purpose of this port being open could not be determined. This machine was also noted during the prior year's review.

Port 3505 - CCM Communications

One machine was found to have port 3505 open, which is used as the CCM Communications port. The purpose of this port being open could not be determined. This machine was also noted during the prior year's review.

Port 5020 & 5021 - Zenginkyo-1&2

Two machines were found to have ports 5020 and 5021 open. These ports are registered as Zenginkyo1 and Zenginkyo2, respectively. The purpose of these ports being open could not be determined. One of these machines was noted during the prior year's review.

Port 5022 - Mice Server

Two machines were found to have port 5022 open, which is used by a Mice Server. The purpose of this port being open could not be determined. One of these machines was noted during the prior year's review.

Port 5631 - PCAnywhere

One machine was found with port 5631 open. This port is commonly used by PCAnywhere software. PCAnywhere is an industry-leading remote control software that features remote management paired with file transfer capabilities. PCAnywhere has the ability to help quickly resolve helpdesk and server support issues. However, vulnerabilities exist that may allow local users to gain the same rights as the SYSTEM profile using the help interface or that may lead to denial of service attacks. This machine was also noted during the prior year's review.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-CHFS-9: The Cabinet For Health And Family Services Should Ensure All Open Ports On Agency Machines Have A Business-Related Purpose (Continued)

Port 5800 and 5900 - Virtual Network Computer (VNC)

One machine was found with ports 5800 and 5900 open. These ports are commonly used by a Virtual Network Computer service. This is a very good tool, but provided the weakness in VNC password requirements; the agency should consider closing these ports and eliminating this service if there is not a business necessity. This machine was also noted during the prior year's review.

Ports 5881 and 5981 - Virtual Network Computer (VNC)

One machine was found with ports 5881 and 5981 open. These ports are used by a Virtual Network Computer (VNC) service. This is a very good tool, but provided the weakness in VNC password requirements; the agency should consider closing this port and eliminating this service if there is not a business necessity. This machine was also noted during the prior year's review.

Port 8001 - shoutcast

One machine was found to have port 8001 open, which is normally used by the shoutcast service.

Port 8002 - shoutcast, TCP Yahoo! Messenger

One machine was found to have port 8002 open, which is normally used by the shoutcast or TCP Yahoo! Messenger service.

Port 8009 – Apache JServ Protocol v13 (ajp13)

One machine was found to have port 8009 open, which is normally used by the Apache Jserv Protocol v13 service.

Port 9000 - CS Listener

One machine was identified as having port 9000 open, which is used by the CS Listener. Through the use of vulnerability tools, it was determined that the machine is a Lexmark Optra S printer. We were able to view the configuration menu of the machine. This could allow an intruder to reconfigure the device in several ways; the most disruptive would be to change the password as well as the public community string, which was set to 'public'. This machine was also noted during the prior year's review.

Port 9100 - PDL-datastream (Printer)

One machine was found to have port 9100 open, which is normally used by the PDL-datastream service.

Ports 13782 and 13783

One machine was found with ports 13782 and 13783 open. This port may be running VoIP (Voice Over Internet Protocol) service. The service is susceptible to wireless DoS attacks.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-CHFS-9: The Cabinet For Health And Family Services Should Ensure All Open Ports On Agency Machines Have A Business-Related Purpose (Continued)

Port 49400 - Compaq web-based management (compaqdiag)

Five machines were found to have port 49400 open, which is normally used by the Compaq web-based management service.

Other Ports

Thirteen machines had ports open that do not appear to specifically relate to known business applications. One of these machines was reported during the prior year. Finance should review all open ports on machines to ensure that all have a valid business-related purpose.

The existence of unused open ports, default profiles, and outdated system software increase potential security vulnerabilities and is an invitation for intruders to enter the system. Further, system configuration information would be intriguing to a hacker and should be restricted.

To minimize the risk of unauthorized access to a machine, only necessary business-related ports should be open, default profiles should be avoided and system software should be kept up to date. Further, information concerning system configuration should not be made publicly available.

Recommendation

We recommend that CHFS review all open ports to ensure there is a specific business-related purpose requiring the port to be open. If not required, then that port should be closed. If the port is necessary then CHFS should ensure the most recent patches are implemented for the service in use, applications are kept updated, and that adequate logical security controls are implemented to prevent unauthorized access as necessary. CHFS should disable any default profile.

As noted above, there are several issues that were also reported during the prior year's review. The scan that resulted in this comment was performed prior to CHFS reviewing our prior assessment and essentially taking any corrective action. With this, there may be several issues that are resolved. Where applicable, this should be noted below in the agency's response.

Management's Response and Corrective Action Plan

A Network Analyst has reviewed this document and noted the specified problems for review. We received the Auditor's full report including IP addresses on July 22, 2005 but have not yet been able to complete a thorough investigation of each of

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-CHFS-9: The Cabinet For Health And Family Services Should Ensure All Open Ports On Agency Machines Have A Business-Related Purpose (Continued)

Management's Response and Corrective Action Plan (Continued)

the documented machines. We have already done our own network scan of all the IP addresses mentioned in the full Auditor's report to gather some initial information and verify the findings from the Auditor's report. We found that some of the IP addresses were completely unresponsive, and that some IP addresses did not seem to exhibit the problems noted in the report. Possibly the wide use of DHCP caused the second discrepancy. However, we also found that many of the IP addresses specified in the report did exhibit the problems specified, and we will work to remedy those in a timely manner. Our security team will research each server noted in the Auditor's full report as having unnecessary ports open and disable them where possible. Where services have been misconfigured or are not up to date on available patches, we will fix/patch them. We will also submit valid reasons to the Auditor's office for any suggestions in this document that we do not plan to follow.

FINDING 05-CHFS-10: The Cabinet For Health And Family Services Should Ensure Security Information Leakage For Devices Is Minimized

As noted in the two prior audits, CHFS did not restrict critical information divulged by its network machines. During our FY 05 examination of security governing the local area networks (LANs) we discovered several instances in which machines within the LANs provided information that could potentially assist an intruder in developing an approach to attack the system.

We ran vulnerability assessment tools during the current fiscal year on 76 machines within the CHFS domains to determine if information would still be returned for Local Security Authority (LSA) and Password Policies. Although there has been significant improvement in the number of machines providing information to anonymous users, there were still 27 machines that provided one or more of these types of information. Twenty-three of which were also reported during the prior year's review. The table below depicts the number of machines that would provide this information.

Type of Information	Number of machines providing information	Percentage of 76 machines providing information
LSA	27	35.5%
Password Policies	19	25.0%
Valid User List	17	22.4%
Valid Group List	14	18.4%
Valid Share List	3	3.95%

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-CHFS-10: The Cabinet For Health And Family Services Should Ensure Security Information Leakage For Devices Is Minimized (Continued)

Further there was one machine that provided general information concerning the machine through a NetBOIS Enumeration tool, including local services, users, trust domains, current sessions, primary and backup domain controllers, dial-in service connections, and machines running master browser service.

If a machine is set up to provide excessive information associated with the machine, then an intruder could use this to perform social engineering in order to gain access to the machine or network.

An agency's domain information that is accessible to the world at large through inquiry tools should be kept at a minimum. Agencies should ensure that information such as location, accounts associated with the machine, type of data residing on the machine, and the machine's role is not divulged or is stated in the most minimal of terms. To accomplish this, an agency can set devices to not respond to certain types of inquiries.

Recommendation

We recommend that CHFS continue their efforts to restrict the level of information provided by their LAN machines to anonymous users. This should include limiting or restricting the type of response machines provide based on certain inquiries.

Management's Response and Corrective Action Plan

A Network Analyst has reviewed this document and noted the specified problems for review. We received the Auditor's full report including IP addresses on July 22, 2005 but have not yet been able to complete a thorough investigation of each of the documented machines. We have already done our own network scan of all the IP addresses mentioned in the full Auditor's report to gather some initial information and verify the findings from the Auditor's report. We found that some of the IP addresses were completely unresponsive, and that some IP addresses did not seem to exhibit the problems noted in the report. Possibly the wide use of DHCP caused the second discrepancy. However, we also found that many of the IP addresses specified in the report did exhibit the problems specified, and we will work to remedy those in a timely manner. Our security team will research each server noted in the Auditor's full report as having unnecessary ports open and disable them where possible. Where services have been misconfigured or are not up to date on available patches, we will fix/patch them. We will also submit valid reasons to the Auditor's office for any suggestions in this document that we do not plan to follow.

FINANCIAL STATEMENT FINDINGS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 05-CHFS-10: The Cabinet For Health And Family Services Should Ensure Security Information Leakage For Devices Is Minimized (Continued)****Management's Response and Corrective Action Plan (Continued)**

Many of the machines reported by the Auditor are running a version of MS Windows NT 4.0. To the best of my knowledge this OS is not capable of being configured to disable anonymous enumeration. Please inform me of any methods you think I'm missing if you believe I'm in error on this point. Also, our NT 4.0 domain controllers must allow anonymous enumeration to work properly with COT's exchange email services. Furthermore, users in our cabinet often need to share files via MS Windows filesharing (SMB) with members of other cabinets in state government. Because enumeration of user accounts, domain policies and machine policies happens using these same ports, it would not be manageable to simply use a firewall to limit access these ports. Finally, it should also be noted that these accounts and policies are not accessible to "the world at large" as stated in the "Criteria" section of this document. At worst, this information is only available to users of the KIH. In spite of these conditions, we will work to disable anonymous enumeration where possible and provide you documentation of steps we have or have not taken with specific machines when we have had more time to work on these issues.

FINDING 05-CHFS-11: The Cabinet For Health And Family Services Should Ensure All Agency Web Servers Have Updated Software And Security Patches Installed

During the FY 05 security vulnerability assessments performed on machines for the CHFS, our examination revealed web service vulnerabilities present on four machines. These vulnerabilities could be exploited to compromise and possibly gain administrative control of these machines. The vulnerabilities found on three machines included HTTP methods of OPTIONS, TRACE, GET and PUT, which can be abused in many cases. Unauthorized use of these commands can reveal sensitive system information or provide methods to misuse the services and files on the site.

Further, the auditor noted that one of the four machines, though maintained at the COT, revealed several vti_pvt directories as the physical paths to configuration files. These directories provide potential intruders with information that may be used to exploit the agency's network.

The vulnerabilities identified appear to result from outdated or unpatched software. These vulnerabilities could possibly allow an attacker from a remote location to execute arbitrary code and gain administrative control of the agency's systems or to force a denial of services.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-CHFS-11: The Cabinet For Health And Family Services Should Ensure All Agency Web Servers Have Updated Software And Security Patches Installed (Continued)

To maintain adequate security it is necessary to ensure all required web services are appropriately updated and all applicable security patches have been installed.

Though at least one of these machines appears to be physically located within and managed by COT, CHFS management is ultimately responsible for the security of CHFS resources.

Recommendation

We recommend that CHFS coordinate with COT the necessary actions to properly secure these machines to ensure that web services on each identified machine are appropriately updated or patched, and take other security measures as needed to eliminate the specified web service vulnerabilities.

Management's Response and Corrective Action Plan

A Network Analyst has reviewed this document and noted the specified problems for review. We received the Auditor's full report including IP addresses on July 22, 2005 but have not yet been able to complete a thorough investigation of each of the documented machines. We have already done our own network scan of all the IP addresses mentioned in the full Auditor's report to gather some initial information and verify the findings from the Auditor's report. We found that some of the IP addresses were completely unresponsive, and that some IP addresses did not seem to exhibit the problems noted in the report. Possibly the wide use of DHCP caused the second discrepancy. However, we also found that many of the IP addresses specified in the report did exhibit the problems specified, and we will work to remedy those in a timely manner. Our security team will research each server noted in the Auditor's full report as having unnecessary ports open and disable them where possible. Where services have been misconfigured or are not up to date on available patches, we will fix/patch them. We will also submit valid reasons to the Auditor's office for any suggestions in this document that we do not plan to follow.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-CHFS-4: The Cabinet For Health and Family Services Should Develop Automated Analysis Procedures To Identify High Risk Transactions Within Benefit Programs**

State Agency: Cabinet For Health And Family Services

Federal Program: CFDA 10.561 - State Administrative Matching Grants for Food Stamp Program

CFDA 93.558 - Temporary Assistance for Needy Families

CFDA 93.778 - Medical Assistance Program

Federal Agency: U.S. Department of Agriculture

U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed/Unallowed, Allowable Costs/Cost Principles, and Eligibility

Amount of Questioned Costs: None

This finding is a reportable condition for internal control over financial reporting and internal control over compliance. The entire finding can be found in the financial statement findings at 05-CHFS-4.

FINDING 05-CHFS-5: The Cabinet For Health And Family Services Should Review System Edits Related To Program Limitations

State Agency: Cabinet For Health And Family Services

Federal Program: CFDA 93.558 - Temporary Assistance for Needy Families

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed/Unallowed, Allowable Costs/Cost Principles, and Eligibility

Amount of Questioned Costs: None

This finding is a reportable condition for internal control over financial reporting and internal control over compliance. The entire finding can be found in the financial statement findings at 05-CHFS-5.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-7: The Cabinet For Health And Family Services Should Obtain A SAS 70 Audit Report For Tier Technologies, Inc.

State Agency: Cabinet For Health And Family Services
 Federal Program: CFDA 93.563 Child Support Enforcement
CFDA 93.767 State Children's Insurance Program
 Federal Agency: U.S. Department of Health and Human Services
 Pass-Through Agency: Not Applicable
 Compliance Area: Other
 Amount of Questioned Costs: None

This finding is a reportable condition for internal control over financial reporting and internal control over compliance. The entire finding can be found in the financial statement findings at 05-CHFS-7.

FINDING 05-CHFS-12: The Cabinet For Health And Family Services Should Follow Documented Policies And Procedures And Maintain Adequate Records To Ensure Payments Are Made For Services To Eligible Recipients

State Agency: Cabinet For Health And Family Services
 Federal Program: CFDA 93.558 - Temporary Assistance For Needy Families
 Federal Agency: U.S. Department of Health and Human Services
 Pass-Through Agency: Not Applicable
 Compliance Area: Activities Allowed/Unallowed and Eligibility
 Amount of Questioned Costs: \$29,820

We reviewed 119 TANF cases (43 of the cases were tested for 60 month Lifetime Limit compliance) for eligibility from DCBS offices in Anderson, Fayette, Grayson, Jefferson, Laurel, Lewis, Montgomery, Pulaski, Scott, Warren, and Woodford counties. Local offices failed to produce records to support expenditures and follow procedures outlined in Volume III - *Kentucky Transitional Assistance Program (K-TAP)* and Volume IIIA - *Kentucky Works Program (KWP)* CHFS' operating manual.

We noted problems in the following areas, which resulted in \$29,820 of questioned costs:

Failure to Follow Established Policies and Procedures

- Two (2) case files contained incorrectly completed WIN-1 forms with no evidence that the caseworker had followed up with the client.
- One (1) case file contained a PA-32 form processed with unused lines not crossed out in the "Description of item or service to be provided" section of the form.
- Seven (7) case files lacked signed PA-219 forms.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-12: The Cabinet For Health And Family Services Should Follow Documented Policies And Procedures And Maintain Adequate Records To Ensure Payments Are Made For Services To Eligible Recipients (Continued)

- Three (3) case files lacked signed KW-202 Transitional Assistance Agreement.

Documentation or Forms Missing from Case File

- One (1) case file did not contain a WIN-1 form to support the WIN payment.
- One (1) Kinship Care case lacked all documentation required to be sent from Protection and Permanency including a KIM-78KC, KC-01, written verification the child and caretaker relative eligibility, and any additional documentation pertinent in determining eligibility for financial assistance under the Kinship Care program.
- Two (2) case files contained neither a PA-32 form nor an invoice for supportive service payments.
- Four (4) case files lacked identification documentation for KTAP.
- One (1) case file was transferred between counties and neither county could produce documentation to support all payments made to the client.
- One (1) case did not contain documentation to support college tuition or bookstore purchases.

Missing Case Files

- One (1) case file could not be located with KWP PA-33 forms to support transportation payments.
- Two (2) case files selected for testing of 60-month lifetime limit could not be located.

One (1) case file selected for our testing proved to be fictitious. The case file had already been sent to the Office of Attorney General for investigation and was being prepared for indictment prior to our arrival for testing. The caseworker resigned in March 2005.

Some of these (or similar) items were commented on in the FY 01, FY 02, FY 03, and FY 04 audits. The agency has taken steps to make caseworkers aware of prior year findings and provide tips and reminders for processing of eligibility case files.

There are numerous effects of the above weaknesses. In general, when K-TAP and KWP policies and procedures are not adhered to, CHFS cannot be assured that expenditures are being made appropriately and K-TAP payments could be made to ineligible individuals.

When TANF case files and records are not maintained or cannot be located, we cannot review client information and documentation for TANF eligibility. In addition, if local DCBS offices do not maintain adequate case records, the CHFS and the U.S. Department of Health and Human Services cannot be assured that benefits are issued to eligible

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-CHFS-12: The Cabinet For Health And Family Services Should Follow Documented Policies And Procedures And Maintain Adequate Records To Ensure Payments Are Made For Services To Eligible Recipients (Continued)**

recipients. This could result in the DHHS assessing a penalty against CHFS. According to 45 CFR 262.1(a)(1), the penalty could be for “the amount by which a State misused its TANF funds.”

Good internal controls dictate that when caseworkers make expenditures of Federal awards, the client’s eligibility determination should be reviewed adequately and completely to ensure only eligible participants receive Federal funding. Good internal controls also dictate that program personnel be adequately trained and supervised to ensure that Federal monies are expended in accordance with program policies and procedures.

Federal Regulations at 45 CFR 205.60(a) state, “The State agency will maintain or supervise the maintenance of records necessary for the proper and efficient operation of the plan, including records regarding applications, determination of eligibility, the provision of financial assistance...The records will include information concerning the date of application and the date and basis of its disposition; facts essential to the determination of initial and continuing eligibility (including the individual’s social security number, need for, and provision of financial assistance); and the basis for discontinuing assistance.”

Federal Regulations at 45 CFR 92.42(b)(1) also state, “...records must be retained for three years from the starting date specified in paragraph (c)....”

Recommendation

In general, we recommend K-TAP policies and procedures be adhered to before Federal awards are expended. In addition, CHFS should increase management reviews in the local DCBS offices and quality control reviews performed by the Quality Control branch in the Office of the Ombudsman. These reviews should include K-TAP applications, recertifications, and payments to ensure they are made in accordance with policies and procedures.

The problems in the K-TAP, KWP, and WIN programs were first noted in FY 01 and continued through FY 05. Based upon the evidence obtained from the cases sampled in various counties, we do not believe they are isolated to a few DCBS offices but are indicative of problems occurring statewide.

Case files should be maintained to adequately support applications, eligibility determinations, case decisions, and expenditures. CHFS should work with local offices to assist them in developing and maintaining an adequate filing system so

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-CHFS-12: The Cabinet For Health And Family Services Should Follow Documented Policies And Procedures And Maintain Adequate Records To Ensure Payments Are Made For Services To Eligible Recipients (Continued)**

Recommendation

that case files can be tracked and located. Despite one local county having missing case files in the past two audits, we recognize an improvement in the maintenance of case files. CHFS could consider having that local office store files in a central location and require caseworkers to sign out and return cases to the central filing location periodically. In addition, CHFS could consider assigning someone the responsibility of keeping track of the case files and maintaining the central file room so that this control weakness can be corrected. When transferring cases the agency should develop procedures to ensure all relevant case files are transferred to the new DCBS office.

Management's Response and Corrective Action Plan

The Cabinet for Health and Family Services (CHFS) understand the responsibility in ensuring that cases, along with payments, are processed accurately and timely.

The Cabinet uses various forms of communication to inform field staff of policies and procedures of case management. The forms of communication utilized are Kentucky Works Program (KWP) tips, KAMES news messages, Family Support Memorandums (FSM), Operations Manual Updates (OMU) and Operations Manual Transmittal Letters (OMTL). OMUs and OMTLs are distributed to inform field staff of new or revised policy and procedures. OMUs are utilized when there is a short-time frame to distribute information. OMTLs are actual revisions to the policy manual. After OMUs are issued, they are incorporated into the policy manual through an OMTL. FSMs are utilized when a clarification of procedures is needed. KWP tips and KAMES news messages are posted directly to KAMES. KAMES is the Kentucky Automated Management Eligibility System. All field workers use KAMES to determine program eligibility and to provide case management. When a worker logs onto KAMES they are required to review all tips and messages before beginning their daily activities. KWP tips provide reminders to field staff of best practices, procedures and policy for case managers to utilize in their performance of providing benefits and services to clients. KAMES news messages is also another way to remind field staff of proper policy and procedures, inform them of systems problems, etc. In addition to these methods, the CHFS issues policy clarifications to address specific problems. Through program specialists, field staff send up questions to be addressed by central office staff. When policy clarifications address general policy, they are issued statewide and attached to the policy manual.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-CHFS-12: The Cabinet For Health And Family Services Should Follow Documented Policies And Procedures And Maintain Adequate Records To Ensure Payments Are Made For Services To Eligible Recipients (Continued)****Management Response and Corrective Action Plan**

The Cabinet will continue to use these means of communication to express the importance that all cases and payments are processed according to policy. Additionally, the Cabinet will draft an FSM addressing the specific issues identified in this audit and reminding field staff of the importance of following proper policies and procedures before issuing payments.

It is recommended the Cabinet increase management review in the local DCBS offices and quality control reviews performed by the Quality Control Branch in the Office of the Ombudsman. The original proposal to include K-TAP eligibility in quality control reviews and increase the number of cases to be reviewed was denied by the Commissioner for DCBS. The request was denied due to fiscal constraints DCBS was facing.

As of July 1, 2005, a new Commissioner was appointed to DCBS. The Division of Family Support intends on resubmitting the proposal. Adding K-TAP eligibility to quality control reviews would assist CHFS in avoiding making improper payments and avoid further audit exceptions.

In addition to including K-TAP eligibility to quality control reviews, DFS is also in the process of modernizing the current case review process to better allow for higher-level case reviews. Currently, each region determines the number of TANF cases reviewed each month to ensure eligibility rules have been applied appropriately. This is currently a paper process. Once this changes to an online, electronic process, staff in FSSB will be able to conduct third-level reviews for specific eligibility elements (such as the 60-month limit) more timely and efficiently.

The Division of Service Regions within DCBS has oversight of local offices regarding personnel issues and local office procedures and operations. The local office in question has stated a corrective action plan was fully implemented. However, problems seem to have arisen due to turnover and the need to redistribute vacant caseloads. Therefore, a new corrective action plan was implemented and additional areas were identified to better secure the tracking of case records.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-12: The Cabinet For Health And Family Services Should Follow Documented Policies And Procedures And Maintain Adequate Records To Ensure Payments Are Made For Services To Eligible Recipients (Continued)

Management's Response and Corrective Action Plan (Continued)

Currently, caseloads are distributed among workers alphabetically. Active cases and inactive cases are maintained in a central filing location. Only the cases that the workers are currently processing are stored in the filing cabinet located in the worker's office. Two staff and one supervisor are assigned to the central filing room. Currently the caseworker comes to the central filing room to pull their case from the files. The secretarial staff assigned to the central filing room will pick up completed cases from the worker's office at least daily if not twice a day. The secretarial staff will then file all cases in the central filing room. The following are recommendations to be implemented at the local office in question in order to avoid repeat occurrences of missing case files:

- Access to the central filing room is limited to the assigned secretarial staff and their supervisor. Their role includes: pulling and filing case records; insuring the case name is legible and listed as last name, first name on the folder; and contacting the appropriate supervisor if a case record as not been returned within an appropriate timeframe.*
- Retrieval of a case record by a caseworker is tracked by the use of "out cards." When a case leaves the file room an "out card" is completed showing the case name, number, date and worker who received the case. The card remains in the file cabinet until the case is returned. When the case file is returned, the file replaces the card and the card is updated with the date of return.*
- Administrative staff is assigned to each unit for the purpose of picking up cases from each caseworker's office and returning them to the central filing room.*
- The caseworker and the supervisor will have the final responsibility of the case records.*
- The SRAA will review issues identified monthly and will work with the supervisors for any corrective actions needed.*

Missing case files is not acceptable to management within the Cabinet. The Director and Assistant Director of the Division of Service Regions have met with the Service Region Administrator and Service Region Administrator Associate of that region to implement these strategies in the local office to ensure this does not

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-12: The Cabinet For Health And Family Services Should Follow Documented Policies And Procedures And Maintain Adequate Records To Ensure Payments Are Made For Services To Eligible Recipients (Continued)

Management's Response and Corrective Action Plan (Continued)

reoccur. They will be monitoring progress in the local office and will assist regional management if any other issues arise.

The Cabinet continually sends out monthly reminders and policy to field staff reminding them the importance of following proper policy and procedures. The Cabinet will continue this effort and research ways to better ensure cases are worked properly.

FINDING 05-CHFS-13: The Cabinet For Health And Family Services Should Improve Child Support Enforcement Performance To Ensure Children Receive Proper Financial Support

State Agency: Cabinet For Health And Family Services

Federal Program: CFDA 93.563 - Child Support Enforcement

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Special Tests and Provisions

Amount of Questioned Costs: None

During testing for the Child Support Enforcement Grant, we found that 21 out of 60 child support cases were out of compliance for FY 05. Some of the 21 cases had multiple exceptions. The exceptions are as follows:

- In eight (8) cases, support orders were not established within the required time frames. In three (3) of these cases, efforts to locate the non-custodial parents were not documented.
- Thirteen cases medical support was ordered but not enforced. Case file/KASES documentation did not show an attempt to obtain medical insurance nor that National Medical Support Notices were sent.
- In five (5) cases, support orders were not being enforced by the county attorney or their staff. In one (1) non public assistance case, there was no application on file. The caseworker was actively pursuing the case when services had not been requested and established the case file without authorization.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-CHFS-13: The Cabinet For Health And Family Services Should Improve Child Support Enforcement Performance To Ensure Children Receive Proper Financial Support (Continued)**

We also looked at 20 cases reviewed by the agency as part of their annual Federal self-assessment. In three (3) cases, support documentation on KASES and in county child support files did not support the conclusions reached by the agency within their self-assessment reviews. These findings indicate cases are not being thoroughly reviewed and information is not being correctly documented in KASES. The self-assessment is conducted from the KASES system only and if KASES is not up-to-date, caseworkers cannot accurately complete the assessment.

When Kentucky's Child Support Enforcement Agency fails to establish and enforce child and medical support in a timely manner it may hinder parents' ability to support their children. This may cause them to remain dependent on the State of Kentucky for financial support and does not provide the resources necessary for families to become self-sufficient. This may cost Kentucky's Medicaid and TANF programs millions of unnecessary dollars.

The annual Federal self-assessment's purpose is to give a state the opportunity to assess whether it is meeting federal requirements for providing child support services and providing the best services possible. Failing to identify deficiencies during the self-assessment may allow the contracting office to be non-compliant with child support regulations.

According to 45 CFR Section 303 IV-D agencies are required to secure support for children from legally liable persons within ninety (90) days of locating the non-custodial parent. This involves the establishment of a legal order requiring the non-custodial parent to provide financial and medical insurance support to a dependent child. Unsuccessful attempts to serve process must be documented. The statute also requires the case record to be supplemented with all information and documents pertaining to the case, as well as all relevant facts, dates, actions taken, contacts made, and results in a case.

45 CFR 308.1 requires the Division of Child Support field staff to conduct self-assessment reviews. The IV-D agency must ensure the review meets Federal requirements and must maintain responsibility for and control of the results produced. The reviewers use KASES to conduct the review, therefore KASES must be thoroughly documented by the caseworkers.

Recommendation

We recommend CHFS provide more training to its contracting officials to ensure all regulations and procedures are followed and required timeframe are met. If health insurance is ordered, the contracting official should verify insurance information of the non-custodial parent. The insurance information should be forwarded to the Medicaid agency in cases where the child is a recipient of Medicaid.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-CHFS-13: The Cabinet For Health And Family Services Should Improve Child Support Enforcement Performance To Ensure Children Receive Proper Financial Support (Continued)**

Recommendation (Continued)

All actions should be thoroughly and accurately documented in KASES providing adequate communication for caseworkers and others involved in working the case. This will make the program more efficient and prevent workers from duplicating each other's efforts.

CHFS should provide training to field staff for conducting self-assessment to ensure all compliance criteria are reviewed correctly.

Management's Response and Corrective Action Plan

Program staff and training staff have developed a questionnaire to assess the contracting official workers' program knowledge. The data obtained from the questionnaire will be used to identify program areas with the greatest training needs to improve performance and accountability. Medical support enforcement continues to be a challenge. The Division of Child Support (DCS) is working with the Department of Medicaid Services (DMS) to improve information sharing between the two agencies. DCS is providing an electronic file to update the Medicaid system with insurance information from the Kentucky Automated Support Enforcement System (KASES). This means the contracting official worker will no longer be required to provide insurance information to Medicaid using manual forms. The system change request to update KASES with insurance information from the Medicaid system has been placed on the priority request list.

We agree with this finding. A memorandum will be issued to all staff.

Each case is reviewed for 8 criteria. This means that 160 potential actions were reviewed in the 20 cases. Although we would like to ensure all cases are reviewed correctly, we do not believe three (3) actions indicate a major problem. In some instances, the worker must make a judgment call as to whether a criterion applies to a case. We do not believe a formal training session will provide the worker with additional knowledge or case review skills that will ensure sound judgments are made for each criterion in all cases reviewed. When the self assessment reviews are conducted, central office staff will be available to assist with questions on the many different case scenarios encountered.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-14: The Cabinet For Health And Family Services Did Not Adequately Monitor Subrecipients Through The Desk Review Process

State Agency: Cabinet For Health And Family Services

Federal Program: CFDA 10.561 State Administrative Matching Grants for Food Stamp Program
CFDA 93.283 Centers for Disease Control and Prevention- Investigations and Technical Assistance
CFDA 93.558 Temporary Assistance for Needy Families
CFDA 93.563 Child Support Enforcement
CFDA 93.568 Low Income Home Energy Assistance Program
CFDA 93.569 Community Services Block Grant
CFDA 93.575 Child Care and Development Block Grant
CFDA 93.596 Child Care Mandatory and Matching Funds of the Child Care Block Grant

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

During the CHFS FY 05 audit, the auditor tested subrecipient monitoring for subrecipients, such as local health departments and county attorneys, related to eight (8) major programs. Amounts provided to all subrecipients under these programs totaled \$106,133,058. During testing, the auditor noted areas of noncompliance as follows.

- The auditor noted 12 instances where either a desk review was not performed, was performed 7+ months past received date, or had not been completed. Of these 12 instances, seven audits did not have a desk review provided to the auditor. One (1) instance was noted where a desk review did not have a supervisory review signature to indicate the review process had been completed. The auditor found four (4) instances where a desk review was completed by the agency during January 2006, 7-13 months after receiving the subrecipient's audit report.
- During the review, the auditor noted 16 instances where a management decision letter had not been sent to the CPA for findings noted in the desk review. The auditor found that several desk reviews were in process and not started until January 2006.
- The auditor noted two (2) instances where there was no corrective action plan provided in response to the OMB A133 audit findings. Of these, one (1) was found to not have any follow up with the Local Health Department (LHD) and no indication that reprimand, in the form of sanctions, was communicated to the LHD.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-CHFS-14: The Cabinet For Health And Family Services Did Not Adequately Monitor Subrecipients Through The Desk Review Process (Continued)**

- The auditor noted several audits had a significant lag time between audit report date and received date that was stamped by the Office of Contract Oversight (OCO)/Office of Inspector General (OIG). Four audits showed 7-13 months time from audit report date to the date OCO/OIG actually received the report.

The auditor found little correspondence that indicated follow-up on the status of this process and noted a significant lack of communication between the OCO and the OIG. The cabinet as a whole lacked proper oversight to ensure all audits required to meet federal government subrecipient monitoring compliance requirements were performed. There was also no oversight to ensure that each audit received a timely desk review.

Without proper oversight, CHFS cannot ensure subrecipients are expending Federal awards for their intended purpose and that these funds are in compliance with OMB Circular A133. This has been a continual problem in past audits that has never been fully corrected. Plus, it makes CHFS not in agreement with their own contractual agreement provision.

The contract between OIG and OCO required complete desk reviews of audits within four (4) months of receipt. OIG was not in compliance with this contract requirement.

OMB Circular A-133 Subpart D (d) requires the following:

- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- (4) Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-CHFS-14: The Cabinet For Health And Family Services Did Not Adequately Monitor Subrecipients Through The Desk Review Process (Continued)**

Contract between the OIG and the OCO requires the following in section 2.15.1:

- a) Perform Desk Reviews of external audits as mutually agreed upon by both parties to ensure compliance with State and Federal laws, regulations, grant agreements, and contracts.
- b) Complete the Desk Reviews of audits within four (4) months of receipt from the First Party.
- c) Meet the standard 100 percent of the time.

Recommendation

CHFS should:

- Evaluate the subrecipient monitoring process and ensure all subrecipient audit reports are reviewed within four (4) months of receipt from the subrecipient via desk review and address any findings reported.
- Implement procedures to ensure subrecipients expending \$500,000 in federal monies and receiving an OMB Circular A133 audit follow the established procedures for following up on these audits.
- Carefully review the flow of information between OCO/OIG, to ensure no facet of the process is overlooked.

Management's Response and Corrective Action Plan

The Cabinet for Health and Family Services (CHFS) has experienced major organizational and staffing changes as a result of the implementation of the merger of the former Cabinet for Families and Children and the former Cabinet for Health Services. As a result, some functions and responsibilities for the monitoring of subrecipients had been assigned and/or delegated across departments and offices. The intended corrective action plan follow-up, documentation processes and related correspondence, then, could not accurately meet the designated timelines that had been set out under the previous management response that was submitted to the auditors.

As of February 1, 2006, the Department for Community Based Services (DCBS) within the CHFS was formally tasked with developing sets of processes to comply with the requirements set out under OMB Circular A-133 audits and the desk reviews/monitoring of those audit reports. As part of this realignment of function, the Department for Community Based Services will be assuring the implementation of the March 2005 corrective action plan that had been previously submitted to the

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-CHFS-14: The Cabinet For Health And Family Services Did Not Adequately Monitor Subrecipients Through The Desk Review Process (Continued)****Management's Response and Corrective Action Plan (Continued)**

auditors. DCBS has illustrated their commitment to resolving the issues addressed in the past audit findings through the recent hire of a full-time staff person who will be dedicated to monitoring subrecipients of federal funds/desk reviews.

In order to address the subrecipient monitoring/desk review responsibility in other departments within the CHFS, the Office of Contract Oversight recently awarded a contract based on competitive solicitation to a private firm to perform the required desk review functions in the Department for Public Health, the Department for Mental Health/ Mental Retardation Services, and the Division of Aging Services.

In response to the APA-identified areas of non-compliance regarding the Local Health Departments under the purview of the CHFS Department for Public Health: The LHDs have met the obligation for the completion, review and monitoring of subrecipients of federal funds under OMB Circular A-133, as 55 of the 56 LHDs had audits completed, and in addition, all LHDs are required under 902 KAR 8:165 to have an annual audit even when they do not meet the threshold for federal funds (\$500,000). Desk reviews of all are currently being conducted. It is the policy of the DPH to document the receipt of all audit reports, the delivery of the audit reports to the desk review contractors, and all correspondence with subrecipients (LHDs), CPAs who performed the audits, and desk review contractors concerning these audits. Additionally, DPH monitors by on-site reviews, meetings, correspondence, all operations of LHDs including expenditures. DPH requires and documents LHDs' corrective plans of action for deficiencies found by on-site reviews as well as for A-133 audit findings. Those plans are reviewed and deficiencies are monitored during subsequent on-site reviews.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-CHFS-15: The Cabinet For Health And Family Services Did Not Implement The Corrective Action Plan For Subrecipient Monitoring

State Agency: Cabinet For Health And Family Services

Federal Program: CFDA 10.561 State Administrative Matching Grants for Food Stamp Program

CFDA 93.283 Centers for Disease Control and Prevention-
Investigations and Technical Assistance

CFDA 93.558 Temporary Assistance for Needy Families

CFDA 93.563 Child Support Enforcement

CFDA 93.568 Low Income Home Energy Assistance Program

CFDA 93.569 Community Services Block Grant

CFDA 93.575 Child Care and Development Block Grant

CFDA 93.596 Child Care Mandatory and Matching Funds of the Child
Care Block Grant

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

CHFS has not implemented its corrective action plan for subrecipient monitoring, therefore materially misrepresenting the FY 04 corrective action plan.

In FY 04, we tested CFC's compliance with subrecipient monitoring provisions of OMB Circular A-133 for the Child Support Enforcement and Child Care and Development Block Grants. At that time we found several deficiencies that CHFS stated would be resolved. However, in FY05, there was no documentation of follow up the corrective action plans for Campbell and Warren counties. There were no FY02 audit reports for Pike County Attorney or the Childcare Council of Kentucky. The FY03 audit report deficiencies for the Childcare Council of Kentucky were not follow-up on by CHFS.

Failing to implement the corrective action plan stated in the FY 04 audit finding results in the agency still not complying with OMB Circular A-133 Subrecipient Monitoring requirements.

OMB Circular A-133 requires auditors to follow-up on prior audit findings and report, as a current year audit finding when the status of the prior year finding is materially misrepresented. CHFS did not take the corrective action stated in the FY 04 audit finding, nor any other corrective action, so we must conclude the prior year finding is materially misstated.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-CHFS-15: The Cabinet For Health And Family Services Did Not Implement The Corrective Action Plan For Subrecipient Monitoring (Continued)****Recommendation**

We recommend CHFS implement its corrective action plan previously submitted to auditors.

Management's Response and Corrective Action Plan

The Cabinet for Health and Family Services (CHFS) has experienced major organizational and staffing changes as a result of the implementation of the merger of the former Cabinet for Families and Children and the former Cabinet for Health Services. As a result, some functions and responsibilities for the monitoring of subrecipients had been assigned and/or delegated across departments and offices. The intended corrective action plan follow-up, documentation processes and related correspondence, then, could not accurately meet the designated timelines that had been set out under the previous management response that was submitted to the auditors.

As of February 1, 2006, the Department for Community Based Services (DCBS) within the CHFS was formally tasked with developing sets of processes to comply with the requirements set out under OMB Circular A-133 audits and the desk reviews/monitoring of those audit reports. As part of this realignment of function, the Department for Community Based Services will be assuring the implementation of the March 2005 corrective action plan that had been previously submitted to the auditors. DCBS has illustrated their commitment to resolving the issues addressed in the past audit findings through the recent hire of a full-time staff person who will be dedicated to monitoring subrecipients of federal funds/desk reviews.

In order to address the subrecipient monitoring/desk review responsibility in other departments within the CHFS, the Office of Contract Oversight recently awarded a contract based on competitive solicitation to a private firm to perform the required desk review functions in the Department for Public Health, the Department for Mental Health/ Mental Retardation Services, and the Division of Aging Services.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-CHFS-16: The Cabinet For Health And Family Services Should Maintain Documentation of Peer Reviews

State Agency: Cabinet For Health And Family Services

Federal Program: CFDA 93.959 - Prevention and Treatment of Substance Abuse

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

During the Prevention and Treatment of Substance Abuse audit, we reviewed five (5) of seven (7) site visit reports and peer reviews conducted in FY 05. We noted a lack of documentation. Specifically, documentation of the:

- Peer reviews for three (3) Community Mental Health Centers (CMHC) was not maintained. The CMHCs are Cumberland, KY River, and River Valley.
- Person conducting the peer review for one (1) CMHC (Cumberland) was not maintained. We generally noted this information as part of the site visit report.
- Transmission of the site visit report to one CMHC (Communicare) was not maintained.

When the personnel conducting the peer review and/or the peer review itself are not documented, we cannot verify the agency complied with peer review requirements.

When documentation isn't maintained, we cannot verify the CMHC received the results of the site visit.

Part 4 of the Compliance Supplement for 93.959 states, "The State must provide for independent peer reviews which assess the quality, appropriateness, and efficacy of treatment services provided to individuals. ... The State shall ensure that the peer reviewers are independent by ensuring that the peer review does not involve reviewers reviewing their own programs. ..."

Good internal controls dictate that site visit reports be communicated to the CMHC and documentation of that communication be maintained.

Recommendation

We recommend the agency maintain peer review and site visit documentation in a centralized location.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 05-CHFS-16: The Cabinet For Health And Family Services Should Maintain Documentation of Peer Reviews (Continued)**

Management's Response and Corrective Action Plan

The Department for Mental Health and Mental Retardation Services (DMH-MRS) will ensure that sufficient written documentation is maintained to substantiate future peer review efforts. Standardized review tools will be utilized by all reviewers with the team leader being responsible for collection and maintenance of all records. DMH-MRS will centrally maintain report cover letters, report documents, any tolls used, and comments made during the review for 5 years from the date of review.

DMH-MRS is in the process of updating our monitoring/peer review guidelines. Procedures will be implemented in the new guidelines to ensure future compliance as recommended. We expect the revised guidelines to be completed by the end of July 2006 and will forward copies of pertinent provisions once completed.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 04	04-CFC-9	The Cabinet for Families And Children Should Document And Correctly Report Unliquidated Balances And Obligations On Quarterly Reports And Ensure Unliquidated Balances Are Spent Appropriately	93.558	0	Resolved during FY 05.
FY 04	04-CHS-1	The Cabinet for Health Services Should Provide Better Safeguards For Funds Placed In Its Care	93.778	0	Resolved during FY 05.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 04	04-CFC-1	The Cabinet For Families And Children Password Policy Should Be Consistently Applied To All Local Area Network Servers	NA	0	See 05-CHFS-2.
FY 04	04-CFC-2	The Cabinet For Families And Children Should Ensure All Inactive Accounts Are Eliminated And That All Account Names Are Ambiguous	NA	0	See 05-CHFS-1.
FY 04	04-CFC-6	The Cabinet For Families And Children Should Maintain Case File Records That Include Client Applications, Recertifications, And Records Of Eligibility Determinations	93.558	\$18,224	See 05-CHFS-12.
FY 04	04-CFC-7	The Cabinet For Families And Children Should Maintain Records To Ensure Payments Are Made For Approved And Allowable Goods And Services To Eligible Recipients	93.558	\$16,774	See 05-CHFS-12.
FY 04	04-CFC-8	The Cabinet For Families And Children Should Only Issue Work Incentive Payments To Eligible Individuals And Should Request And Maintain Adequate Documentation Of The Eligibility Determinations	93.558	\$1,040	See 05-CHFS-12.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions (Continued)</u>					
<i>(2) Audit findings not corrected or partially corrected (Continued):</i>					
FY 04	04-CFC-10	The Cabinet For Families And Children Should Improve Child Support Enforcement Performance To Ensure Children Receive Proper Financial Support	93.563	0	See 05-CHFS-13.
FY 04	04-CHS-2	The Department For Public Health Should Improve Efforts In Monitoring Subrecipient Activity	93.283	0	See 05-CHFS-4.
FY 03	03-CFC-1	The Cabinet For Families And Children Password Policy Should Be Consistently Applied To All Local Area Network Servers	NA	0	See 05-CHFS-2.
FY 03	03-CFC-8	The Cabinet For Families And Children Should Maintain Adequate Records To Ensure That Payments Are Made For Approved And Allowable Goods And Services	93.558	\$5,791	See 05-CHFS-12.
FY 02	02-CFC-2	The Cabinet For Families And Children Password Policy Should Be Consistently Applied To All Local Area Network Servers	NA	0	See 05-CHFS-2.
FY 02	02-CFC-15	The Cabinet For Families And Children Should Maintain And Produce Records To Adequately Support Expenditures	93.558	0	See 05-CHFS-12.
FY 01	01-CFC-1	The Cabinet For Families And Children Should Improve Local Area Network Server Security And Consistently Apply Policies To All Servers	NA	0	See 05-CHFS-2.
FY 01	01-CFC-2	The Cabinet For Families And Children Should Maintain And Produce Records To Adequately Support Expenditures	93.558	0	See 05-CHFS-12.

(3) Corrective action taken is significantly different from corrective action previously reported:

No findings for this section.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
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Reportable Conditions (Continued)

(4) Audit finding is no longer valid and does not warrant further action:

No findings for this section.

Material Weaknesses/Noncompliances

(1) Audit findings that have been fully corrected:

No findings for this section.

(2) Audit findings not corrected or partially corrected:

No findings for this section.

(3) Corrective action taken is significantly different from corrective action previously reported:

No findings for this section.

(4) Audit finding no longer valid:

No findings for this section.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matters (Continued)</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 04	04-CFC-11	The Cabinet For Families And Children Should Ensure Consistent Timekeeping By Contracting County Attorneys And Eliminate Contradictory Language In The Contractual Provisions	93.563	0	Resolved during FY 05.
FY 04	04-CFC-13	The Cabinet For Families And Children Should Utilize State Funds To Make Advance Payments	93.563	0	Resolved during FY 05.
FY 04	04-CFC-14	The Cabinet For Families And Children Should Review The ACF-196 Quarterly Report For Accuracy And Completeness And Ensure The Reported Expenditures Are Reasonable	93.558	0	Resolved during FY 05.
FY 04	04-CFC-15	The Cabinet For Families And Children Should Document Extensions Of Benefits Beyond the 60 Month Lifetime Limit In Accordance With Established Policies And Procedures	93.558	\$956	Resolved during FY 05.
FY 04	04-CFC-16	The Cabinet For Families And Children Should Take Steps to Ensure Deleted Payments Are Not Issued	93.558	0	Resolved during FY 05.
FY 04	04-CHS-3	The Department For Public Health Should Improve Efforts In Monitoring Subrecipient Activity	10.557	0	Resolved during FY 05.
FY 04	04-CHS-4	The Division Of Program Integrity Should Track Interest Due On Outstanding Drug Rebate Balances	93.778	0	Resolved during FY 05.
FY 04	04-CHS-5	The Division Of Program Integrity Should Improve Efforts In Resolving The Backlog Of Disputes Relating To Outstanding Accounts Receivable Balances In The Drug Rebate Program	93.778	0	Resolved during FY 05.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matters (Continued)</u>					
<i>(1) Audit findings that have been fully corrected (Continued):</i>					
FY 03	03-CHS-7	The Division of Program Integrity Still Has A Big Outstanding Balance Of Accounts Receivable For The Drug Rebate Program	93.778	0	Resolved during FY 05.
FY 03	03-CHS-8	The Division of Program Integrity Still Does Not Track Interest Due On Outstanding Drug Rebate Accounts	93.778	0	Resolved during FY 05.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 04	04-CFC-3	The Cabinet For Families And Children Disability Determination Services Should Ensure Its Disaster Recovery Plan Is Updated To Document Required Periodic Training And Testing Of Plan	NA	0	See 05-CHFS-8.
FY 04	04-CFC-4	The Cabinet For Families And Children Should Ensure Security Information Leakage Concerning Agency Devices Is Minimized	NA	0	See 05-CHFS-10.
FY 04	04-CFC-5	The Cabinet For Families And Children Should Ensure All Open Ports On Agency Machines Have A Business-Related Purpose	NA	0	See 05-CHFS-9.
FY 04	04-CFC-12	The Cabinet For Families And Children Should Perform Desk Reviews Timely And Follow Up On Corrective Actions And Deficiencies	93.563 93.575	0	See 05-CHFS-14 and 05-CHFS-15.
FY 04	04-CHS-6	The Cabinet for Health Services Should Ensure That Security Information Leakage For Agency Computer Devices Is Minimized	NA	0	See 05-CHFS-10.
FY 04	04-CHS-7	The Cabinet For Health Services Should Ensure That All Open Ports On Agency Servers Have A Business-Related Purpose	NA	0	See 05-CHFS-9.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matters (Continued)</u>					
<i>(2) Audit findings not corrected or partially corrected (Continued):</i>					
FY 04	04-CHS-8	The Cabinet For Health Services Password Policy Should Be Consistently Applied To All Local Area Network Servers	NA	0	See 05-CHFS-2.
FY 04	04-CHS-9	The Cabinet For Health Services Should Strengthen The Security Of System Accounts	NA	0	See 05-CHFS-1.
FY 03	03-CFC-4	The Cabinet For Families And Children Should Ensure That Security Information Leakage For Agency Computer Devices Is Minimized	NA	0	See 05-CHFS-10.
FY 03	03-CFC-5	The Cabinet For Families And Children Should Ensure That All Open Ports On Agency Machines Have A Business-Related Purpose	NA	0	See 05-CHFS-9.
FY 03	03-CHS-4	The Cabinet For Health Services Should Ensure That Security Information Leakage For Agency Computer Devices Is Minimized	NA	0	See 05-CHFS-10.
FY 03	03-CHS-5	The Cabinet For Health Services Should Ensure That All Open Ports On Agency Servers Have A Business-Related Purpose	NA	0	See 05-CHFS-9.
FY 03	03-CHS-6	The Cabinet For Health Services Password Policy Should Be Consistently Applied To All Local Area Network Servers	NA	0	See 05-CHFS-2.
FY 03	03-CHS-11	The Department For Public Health Needs To Ensure Corrective Actions Are Taken On Subrecipient Monitoring	NA	0	Upgraded to reportable in FY04. See 05-CHFS-4.
FY 02	02-CFC-4	The Cabinet For Families And Children Should Ensure That Security Information Leakage Concerning Agency Devices Is Minimized	NA	0	See 05-CHFS-10.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
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Other Matters (Continued)

(2) Audit findings not corrected or partially corrected (Continued):

FY 02	02-CFC-5	The Cabinet For Families And Children Should Ensure That All Open Ports On Agency Machines Have A Business-Related Purpose	NA	0	See 05-CHFS-9.
FY 02	02-CHS-4	The Cabinet For Health Services Should Ensure That Security Information Leakage For Agency Computer Devices Is Minimized	NA	0	See 05-CHFS-10.
FY 02	02-CHS-5	The Cabinet For Health Services Should Ensure That All Open Ports On Agency Machines Have A Business-Related Purpose	NA	0	See 05-CHFS-9.
FY 02	02-CHS-6	The Cabinet For Health Services Password Policy Should Be Consistently Applied To All Local Area Network Servers	NA	0	See 05-CHFS-2.

(3) Corrective action taken is significantly different from corrective action previously reported:

No findings for this section.

(4) Audit finding is no longer valid and does not warrant further action:

No findings for this section.